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CIS

REVIEW OF RURAL DEVELOPMENT LOAN PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT,
OVERSIGHT, AND INVESTIGATIONS

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
SECOND SESSION

JULY 27, 1982

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REVIEW OF RURAL DEVELOPMENT LOAN PROGRAMS

TUESDAY, JULY 27, 1982

U.S. SENATE,
SUBCOMMITTEE ON RURAL DEVELOPMENT,
OVERSIGHT, AND INVESTIGATIONS OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:34 p.m., in room 324, Russell Senate Office Building, Hon. Mark Andrews (chairman of the subcommittee) presiding.

Present: Senators Andrews and Leahy.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. The subcommittee will come to order.

I apologize for my late arrival. We have an Appropriations Committee meeting going on that I was supposed to be at, at this same time.[1]

It is good to be here, and great to have you.

Mr. Secretary, good to have you here.

Charlie, I understand you have some of your family here, your brother and sister-in-law and their children from Illinois are in the audience as well as your wife. Please have them stand up.

[Applause.]

Senator ANDREWS. That is not a bad backup for a fellow that runs the Farmers Home Administration. There has got to be some merit to you.

Today, we are holding a hearing on rural development and our witnesses are Frank Naylor, Under Secretary for Small Community and Rural Development, and Charles W. Shuman, Administrator, Farmers Home Administration.

We also have a panel consisting of Norm DeWeaver, Harold Wilson, Aliceann Wohlbruck, and Herbert Collins.

First, I would like to hear if my colleague from Vermont, Senator Leahy, would like to make an initial statement.

Senator LEAHY. Yes.

I ask that the entire statement be made a part of the record.

Senator ANDREWS. Of course, it will be.[2]

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[1] See p. 41 for the prepared statement of Senator Andrews.
[2] See p. 41 for the prepared statement of Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator **Leahy**. I would like to extend my appreciation to you for having these hearings. I think they are extremely important. We in the Senate have passed many laws, but we do not sit down very often and see how those laws are being implemented.

I wish during this hearing we could focus on the legitimate administrative problems with the operation of the loan programs of the Rural Development Insurance Fund or take a good look at the strategy called for by the Rural Development Policy Act. I am afraid to say that we are almost starting from scratch, as though the Rural Development Policy Act was not written, as though we did not have it on the books. We have had enough budget cuts, enough regulatory acts, enough noncompliance with the Rural Development Policy Act that it makes me wonder if we are really working within an antirural government.

In the President's fiscal 1983 budget request, the loan programs of the Rural Development Insurance Fund were slated for a 70-percent reduction over fiscal 1981.

The new Director of the Office of Rural Development Policy is not going to be here today because, according to USDA, "We do not have a rural policy yet."

Now, this administration has stated a number of times that they should be commended for good administrative and management processes. They have praised themselves to a great extent for that. But if you slash rural programs 70 percent in just a couple of years, is that really good management?

Let us just take a look at a couple of the programs we have. Off-farm employment now accounts for a majority of rural wages, wages that are still 20 percent behind their urban counterparts. But the business and industrial loan program which has saved or created many rural jobs is slated for termination.

The rural population has grown by 15 percent over the past 10 years. Local rural governments are experiencing a sharp increase in the demand for their services. Yet the community facility loan program is cut in half. Water and sewer facilities are important to rural growth. The administration has pared this program back by 60 percent.

On top of that the regulations for the operation of the two community loan programs were written in such a restrictive manner that not even one town in Vermont, one of the most rural States in the Nation, could qualify for either set of loans.

I am delighted Mr. Naylor is here. He was quoted in a National Association of Towns and Townships Newsletter saying that rural programs in the Federal budget had been hit harder than so-called nonrural programs, but that the administration was still committed to rural areas. I respect that commitment. But, I think we better look to see whether it is really being carried out.

We cannot simply talk about voluntarism. We cannot simply talk about the private sector or the free market because they do not build water and sewer systems in rural areas; they alone cannot create jobs for an expanding rural population that depends on off-farm employment for the majority of its wages.

The administration has taken some steps forward, I should note. They have created an Office of Rural Development Policy, a National Advisory Council on Rural Development and the Secretary announced on July 21 that he will be soliciting comments on a national rural development policy.

The administration released a progress report on the rural development strategy. But, again, contradictions exist even in that. The introduction presents a careful overview of the problems facing rural areas but it proposes absolutely nothing besides voluntarism, information sharing, and private-sector slogans to alleviate some of these problems.

In the Food and Agriculture Act of 1970, the Congress wrote, and I quote, "The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity, and welfare of all of our citizens that the highest priority must be given to the revitalization and development of rural areas."

In 1972, the Consolidated Farm and Rural Development Act was passed, creating many of the programs that we are discussing here today.

In 1980, we worked in a strong bipartisan effort to restate and reaffirm our commitment to rural areas by enacting the Rural Development Policy Act.

Rural America is a growing, dynamic part of our country. I hope that as a result of these hearings we will be able to tell rural America that Washington is not turning its back on its unique and critical needs.

Quite frankly, Mr. Chairman, as I go around rural America, I find an awful lot of people that say that this is exactly what is happening. I do not hear it just from one political party or the other. I hear it from all rural America, all segments of the country.

So, I commend you for having the hearings. I think they are important at least because they will make the USDA and others evaluate what they are doing.

Senator ANDREWS. Well, I certainly appreciate the contribution my colleague from Vermont has made. I recognize that he was one of the main authors of the Rural Development Policy Act of 1980 which I supported over in the other body. We do have it on the books and, as I am sure the two of you from the Department of Agriculture know and everyone else in this room knows, we have called these hearings to discuss the administration's rural development policy and specifically the water and waste disposal systems loan program, community facility loans, business and industrial loans and the alcohol production facility loans.

For the last few years I have been worried about what I perceive to be the lack of a positive, coordinated, and determined rural development policy that will assure the economic well-being of our rural areas.

I was concerned about that when it was the Republican Party down in the White House; I was concerned about that when it was a Democratic Party down in the White House and now I am concerned again when my own party is back in the White House. Frankly, I think there has been a good deal of what we can call bipartisan neglect in this whole matter.

The Rural Development Policy Act of 1980 called for the Secretary of Agriculture to prepare a national rural development strategy. We have been waiting for it for more than a decade. We felt that passing the Rural Development Policy Act might speed up this preparation of a strategy—of an overall approach to solving the problems that have been around for more than one decade, for probably two or three decades.

Now, the Department has submitted a progress report to the Congress but will not have a strategy report until next year, a full 2 years after passage of the law.

Not more than about a week ago, my colleagues and I were here talking about dairy price support programs and changes in the dairy price support program that have been recommended by the producers themselves. I mentioned the dilatory tactic on the part of the Department. Mr. Lesher was less than, shall we say, receptive to that choice of words on my part. But it is dilatory. We wait a couple of years for this strategy report. We wait for more than a year—actually far more than 1 year to do something to change the dairy price support program and this time affects farmers and rural residents as well as the economy of the Nation.

While we have been waiting we have seen many of the rural development programs absorb large cuts and many of the programs that remain in place have suffered because of high interest rates.

In my State of North Dakota, which is a State similar to Vermont, we have already lost water and sewer and community facility funds to the national office's pooling process. That is a wonderful word, "a pooling process." When the final pooling for fiscal 1982 takes place on August 6, we will lose even more funds. This has happened in a State that has historically spent all their funds and then received additional funds after pooling took place.

The main reason we have not been able to use all of the funds is because of the high interest rates charged. Small communities in North Dakota simply cannot afford to pay 11⅜ percent interest. The new regulations setting out an interim interest rate of 8⅜ percent interest has helped some. Simply put, we cannot afford to delay any longer. A national rural development policy and strategy is important to help solve the problems faced by rural America and develop its potential to the fullest possible extent.

We will also use this forum to discuss other problems facing rural America, including housing needs and the general performance of all Farmers Home Administration programs.

While I realize that the Farmers Home Administration housing programs do not come under the jurisdiction of the Agriculture Committee, they are a part of rural development and cannot be totally separated from the other programs.

Now, the first panel is the administration witnesses, as I mentioned before, Under Secretary Frank Naylor and Charles Shuman, who is Administrator of the Farmers Home Administration.

I hope because you have a little family backup, your response will be precise and to the point.

So without any further ado, we will be glad to hear your statements.

As has been said before, we can assure you that your full statements will appear in the record as if you gave the whole thing and the sooner we get through your statements, the sooner we get to the questions which is the really intesting part of the program.

You may proceed.

STATEMENT OF HON. FRANK W. NAYLOR, JR., UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. NAYLOR. Mr. Chairman, Senator, we appreciate the opportunity to appear before your committee.

I do not have a formally prepared statement. Mr. Shuman does on behalf of the Farmers Home Administration.

Because of a multitude of scheduling problems, Mr. Phillips is not with me. He is at the National Conference of State Legislators in Chicago, working with them on their input into the rural development program.

Certainly, having been part of and been involved in much of the history of the Rural Development Act myself, dating back to the time of the original passage, a lot of water has gone under the dam and a lot of things have happened.

Senator ANDREWS. We should point out that you were not a part of the dilatory tactics in the past.

Mr. NAYLOR. On the contrary, I think there has been some progress. Certainly no administration can claim full or even perhaps substantial credit but it has been a factor in doing some major turnaround.

Senator ANDREWS. We started working on rural development at the tail end of the Johnson administration and a good friend of ours, Will Irwin, who you worked with, came before our subcommittee time and again trying to get the rural development off the ground. I remember Congressman Whitten asked him a couple of times, well, where it is. It was not because of Will's lack of interest or desire that it was not there. But it has been a long road.

Mr. NAYLOR. It has been a long road, but not one without substantial progress, Mr. Chairman.

Cal Beal I think is recognized as one of the authorities in rural population and rural trends and has only recently completed an update for this last decade. I think some significant things have happened.

When the Rural Development Act passed, the population was moving away from rural areas at a rate of 4 percent a year. In that decade, that trend has not only been halted but reversed in all but a few counties of the United States, predominately in the Southeast. But a significant trend back to rural areas has occurred as a result, in part, of the business and industrial loan program being a catalyst, to begin the process.

But now the process is well under way. We have seen the commercial industry begin to put a substantial number of new job opportunities into rural communities. New plant facilities are springing up all over the country. Mr. Beal's review indicates that all but a handful of the counties in the Southeast have seen significant opportunities for other than farm employment begin to open up in rural areas.

As late as 1970, over 50 percent of the housing in rural areas was substandard, meaning it lacked one or more basic plumbing facilities. Today, that figure is less than five and that is a substantial degree of progress and there are certainly some pockets left, again most notably in the Southeast, where additional work certainly needs to be done.

I would not pretend to claim that our job is finished. But neither would I say that our job has not been well started. I think it is important that for the first time an administration has gone out and brought in what I think Congress intended, certainly I feel, and I think it has been the feeling of this administration, to go out to the public, to the people that have to use these services and bring them in and make them a full partner in the development of what is needed for rural development in rural America in the form of a rural strategy.

I have witnessed through two administrations, one Democratic and one Republican, efforts at accomplishing that task and, frankly, I would have to agree, they have not been successful.

In this administration, as a result of Secretary Block's and President Reagan's efforts, a National Advisory Council has been established comprising rural leaders from all walks and endeavors. They are developing with us a wide range of rural issues, addressing the full scope of the problems in rural America.

We are beginning to see the development, and I think properly so, of a realistic strategy that will coincide and work hand in glove with the efforts of the administration in moving the decision process back to the local areas, moving it out of Washington as extensively as possible. Certainly, we have a great deal of work for us. The job is far from finished. The job should be described as just beginning but in the last 10 years we have made substantial progress, in no small measure as a result of the administration of many of the programs that we have had in effect, some of which have largely served their purpose, as in the case of the business and industrial loan program.

But we still have a lot of work in other areas to do, particularly in the farming area, and we remain committed to do so.

Mr. Chairman, with those brief comments, I will turn to Mr. Shuman, who would like to make a brief statement.

Senator **ANDREWS**. You can submit your written statement or summarize it.

Mr. **SHUMAN**. Thank you.

I do have a statement that I would be more than happy to have put in the record.[1]

STATEMENT OF HON. CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. **SHUMAN**. I would not want to spend any time summarizing that statement, but only to say that we think that the Farmers Home Administration has done and is continuing to do and will proceed to deliver in rural America the programs for enhancing the life of people in rural America and to better their opportunities for advancement. I am personally proud to be a part of that and I am looking forward to working with Congress in furthering that effort.

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[1] See p. 43 for the prepared statement of Mr. Shuman.

Senator. **Andrews** Mr. Shuman, one of the reasons we wanted you to come up was, as I stated in my opening remarks, because in my State, and I suspect other States as well, we lost water and waste disposal funds to pooling this year. We expect to lose more in the next pooling on August 6.

My State was allocated $1,780,000. They have used $705,000 and lost $545,000 to the March pooling.

North Dakota has made one 5-percent loan for $90,000, two 8⅜-percent loans for a total of $270,000 and five 11⅜-percent loans for a total of $345,000.

Now, in fiscal 1980–81, my State not only spent its allocation but received an additional $740,000 in 1980 and $410,500 in 1981.

The above facts certainly make it clear that the program is not working as was intended. Regulations for the three-tiered loans were not put into effect fast enough and the regulation covering the program prior to July were so strict that many communities simply could not afford the loans. How many States lost money to the national pool in March?

Mr. **Shuman**. Senator, the pooling process does not really lose money. What the pooling process does is allow States to draw from the national pooling on a first-come, first-served basis. The pooling process makes allowances for differences in the utilization of the funds from State to State so that no State would run out of any funds when in fact there were plenty of funds nationwide.

Senator **Andrews**. I totally understand that. We have been out to max before but we were told at the end of the March pooling that we were going to lose virtually two-thirds as much as we had in loans. We used $705,000. We lost $545,000 at that point. How many States were in a similar circumstance?

Mr. **Shuman**. Again, I have to say I have some problems with the term "lose," because they do not really lose. They continue to have access, and we are able to fund all of the feasible proposals presented. I do not have specific numbers of those States where funds were moved from the State allocation to the national pooling, but I will supply those for the record.

Senator **Andrews**. Supply those for the record.

[The following information was subsequently received by the committee:]

On March 31, 1982 and August 6, 1982, Farmers Home Administration (FmHA) pooled all unobligated Community Program funds. Attached are the States that returned unobligated Community Program funds to the National Pool.

FORM FmHA 530-40
(Rev. 6-29-78)

POOLED FUNDS

USDA-FmHA

	MARCH 31, 1982			AUGUST 6, 1982		
	WWD LOANS	WWD GRANTS	CF LOANS	WWD LOANS	WWD GRANTS	CF LOANS
01 ALABAMA				249,000	202,600	408,000
02 ARIZONA	990,000	335,000			335,000	500
03 ARKANSAS						282,000
04 CALIFORNIA	4,002,700	62,600	815,500	1,690,300	1,842,500	1,167,500
05 COLORADO	1,120,500	411,000	292,000	1,378,200	432,000	307,500
07 DELAWARE	392,500	137,500		204,500		
24 MARYLAND		652,500	230,000	1,674,380	652,500	454,800
09 FLORIDA				300,000		72,200
10 GEORGIA		118,500	1,492,500	1,204,000	107,500	1,897,500
12 IDAHO	743,000	27,000	330,000	662,200	317,500	330,000
13 ILLINOIS	889,500		1,248,000	2,119,500	10,997.66	
15 INDIANA						
16 IOWA			760,000	345,900		740,000
18 KANSAS			827,500			814,000
20 KENTUCKY	182,500			500	684,000	265,000
22 LOUISIANA			1,765,000	82,200	6,700	25,000
23 MAINE						
25 MASSACHUSETTS		56,400	290,000	888,900	567,500	590,000
06 CONNECTICUT						40,000
45 RHODE ISLAND			25,000	40,000	63,000	50,000
26 MICHIGAN			1,142,500	45,000	27,000	
27 MINNESOTA			1,855,000	566,000		
28 MISSISSIPPI				3,600	800	118,500
29 MISSOURI	4,847,500	1,168,900	1,737,500	117,800	39,200	1,196,000
31 MONTANA	108,500	310,000	197,500	917,500	310,000	322,500
32 NEBRASKA	1,621,500	365,000	630,000	608,500	468,000	630,000
35 NEW JERSEY					515,500	114,000
36 NEW MEXICO			380,000			380,000
37 NEW YORK				953,190	21,200	588,400
64 VIRGIN ISLANDS	195,000	72,500	72,500	195,000	72,500	72,500
38 NORTH CAROLINA				45,800		130,000
40 NORTH DAKOTA	545,000		112,500	10,000	9,000	
41 OHIO	1,321,000		1,997,500	1,563,000	12,000	105,500
42 OKLAHOMA			406,100	406,900	120,200	1,708,900
43 OREGON	164,900			952,500	4,700	
44 PENNSYLVANIA	4,808,700	2,073,100	902,700	5,313,400	354,000	2,787,500
46 SOUTH CAROLINA				25,200		
47 SOUTH DAKOTA				487,200	128,800	755,000
48 TENNESSEE				565,000	-1,118,000	484,000
49 TEXAS			640,000	98,000		3,205,000
52 UTAH			197,500	110,000		197,500
33 NEVADA	164,900	82,500	85,000	227,500	82,500	85,000
53 VERMONT	78,000			805,500		
34 NEW HAMPSHIRE		219,700		185,000		154,050
54 VIRGINIA	2,801,000		1,680,000	3,378,000		1,680,000
56 WASHINGTON				611,800		511,700
57 WEST VIRGINIA			991,000			554,000
58 WISCONSIN	1,402,000		445,000	6,369,000	2,033,100	1,207,000
59 WYOMING	407,500			407,500	1,000	116,000
60 ALASKA	138,600	100,000	105,000	282,500	100,000	
61 HAWAII-[redacted]	240,000	85,000	90,000	240,000	85,000	90,000
62 W. PACIFIC TERR.	587,500	202,500	210,000	587,500	202,500	
63 PUERTO RICO	3,362,500			4,743,500		4,000
Guam	207,500	75,000	77,500	207,500	75,000	229,500
Amer. Samoa	125,000	47,500	50,000	125,000	47,500	
TOTALS	31,447,300	6,602,200	22,080,300	41,993,470	11,049,297.66	24,910,550

Senator Andrews. How many 5-percent loans had you made by the March pooling?

Mr. Shuman. I can give you some current information on the 5-percent loans. I will supply additional information for the record, on the March pooling date.

[The following information was subsequently received by the committee:]

From October 1, 1981, through March 31, 1982, the Farmers Home Administration (FmHA) made forty-eight (48) loans at a 5 percent interest rate.

Senator Andrews. Fine. I am just trying to find out how this works. It is a little confusing to me. A definition of a confused person is a kid who drops his bubble gum on the chicken house floor. He is really confused.

I am trying to figure out what you are trying to do. We have 27 applications in North Dakota, totaling $33,745,745. We are told we are going to lose additional money in the pooling that takes place on March 7.

How much money will not be spent or allocated nationally by August 6?

Mr. Shuman. Again, the August 6 date is really not significant except as we move money from State to State to assure that all feasible projects are funded. We have very little unused funds at the present time and we do not anticipate a large pool of money available as of August 6.

Senator Andrews. But you are moving the money out of a State where there is a demand for roughly 30 times as much as our allocation was and you are telling us that we are losing part of our allocation to pooling for other areas. As I say, it is a little bit confusing.

Mr. Shuman. It is not a matter that there is not a demand. It is a matter whether they are projects developed far enough along in the processing so that they can use the funds in this fiscal year.

Senator Andrews. I would guess, Mr. Shuman, these applications are pretty well along in the process and many of them have been approved by your State office and simply have not been allocated funds.

Now, will you supply a breakdown for the record of how many 5-percent loans you have made to the States and how many 8⅜ percent and how many 11⅜ percent?

Mr. Shuman. Yes.

[The following information was subsequently received by the committee:]

From October 1, 1981, through August 18, 1982, the Farmers Home Administration (FmHA) made the following loans:

Interest rate and effective period	Number of loans	Amount of funds
5 percent—Oct. 1, 1981 to Aug. 18, 1982	104	$36,722,100
12.25 percent—Oct. 1, 1981 to Dec. 31, 1981	67	23,353,500
11.375 percent—Jan. 1, 1982 to Mar. 31, 1982	607	224,403,580
12.375 percent—Apr. 1, 1982 to June 30, 1982	68	13,578,300
8.375 percent—July 9, 1982 to Aug. 18, 1982	94	44,383,300
11.625 percent—July 1, 1982 to Aug. 18, 1982	172	79,638,100

Senator **Andrews**. Not only number of loans but dollars in those loan categories.

It seems to me, from what I hear, not only in my State but other States, that Farmers Home did everything possible to not make any 5-percent loans, while you were trying to come up with a new formula. The fact is that if 8⅝-percent loans had been available before July, we probably would not have lost as much money as we did when we transferred it out.

I understand also that even though we received little 5-percent money, $496,000 in grant money went to the communities that received 11⅝-percent money, and they only received $345,000 in 11⅝-percent loan money. So it appears that a community is better off taking an 11⅝-percent loan and getting grant money than paying 8⅝ percent on the total amount which would end up with a net of 5⅝ percent.

Is that arithmetically correct?

Mr. **Shuman**. I did not follow all the mathematics.

Senator **Andrews**. The mathematics are that you cut out most of the 5-percent money, made it nonavailable. But of the 11⅝ money, we had $345,000, $345,000 worth and $496,000 in grant money went to those communities that got $345,000 in 11⅝-percent money.

So even though you are backing away from the 8⅝-percent program, it looks like you are moving into a new program that has more attractive interest rates, but it is a kind of hokey-pokey program that depends more on grantsmanship than straight out figures. The rural communities in my State and I suppose other States, would much rather have a straightforward, honest approach.

It was my understanding also that grant money was to be used for the lowest income communities and yet most of the grant money is going to communities that received 11⅝-percent loans.

How do you explain that?

Mr. **Shuman**. Nationwide, generally speaking, about 10 percent of our loans have gone to communities getting 5-percent loans. That is nationwide. I cannot speak to specifics in your State. The present grant formulation that we utilize has a procedure for determining how much grant money goes to a community. We have the authority to move the grant amount up, so that the community will pay a water bill similar to like communities in that area. So we sometimes do have, using the present grant formula that we have in place, authorization to put some grant money in those higher income communities that are required to pay a higher interest rate.

The new grant formulation process that has been published in the Federal Register but is not yet finalized would address the concern that you pointed to, Senator, and zero in a majority—in fact, nearly all—of our grant money to the lower income communities, the ones eligible to receive the 5-percent loan or the median, middle-interest-rate loan.

Senator **Andrews**. Now, just a minute.

As I perceive what you just said, in the first part you said that the grants were used to get the cost of rural water service down to a comparable level with other towns.

Mr. SHUMAN. That is one of the criteria that is used in the present system.

Senator ANDREWS. Then you said that the grants were going to be used to these specific low-income——

Mr. SHUMAN. That would be the new system.

Senator ANDREWS. Under the new system. So does that mean that you are abandoning the effort to try to get water supplies at a comparable cost and if you determine that a community is a well-to-do community or a relatively better off community, that they will then be paying an average of $50 a month for rural water service, and a community that you determine is a low-income community will be paying $15?

Mr. SHUMAN. I would not want to characterize the size of the water bill.

Senator ANDREWS. I am using those numbers in the abstract.

Mr. SHUMAN. We do feel it appropriate to direct our grant fund to the lower income communities. We also feel that it is appropriate to have the lower interest rates available to the communities with lower income. That is the direction that the combined interest rate determination formula that we use now and the proposed change in our interest-rate regulations would take us.

Senator ANDREWS. Well, you seem to be getting away from some pretty basic concepts.

Under the area-wide system concept you have community A that is determined to be a well-off community and community B is determined to be a low-income community. In community A, you are still going to have 20 percent low-income residents, handicapped people, and older people. You say a community like that will have to pay a water bill two or three times that of other communities.

How are you helping the relatively poor people in that community? We have had rural electrification programs for 40 years or more and it has been based on area-wide service to give a comparable rate—cost of electric power, irrespective of where it was located.

You serve the business connections along the line with the rural small tenant farmers and they get comparably priced electric service.

Now, all of a sudden you will give one community one rate and the wealthy persons in that community will get a whale of a break and the poorer persons will pay three times as much.

Why the new shift?

Mr. SHUMAN. I am not sure it is new. I think there has always been an emphasis to provide the lower interest rates and the bigger portion of our grants to the lower income rural communities.

Senator ANDREWS. As I remember it, there has always been a conscious effort to provide this water service and the electric service at a comparably priced rate. If it was found that because of distances or other problems, it would cost an extraordinary amount above, the base rate of say, $15, then the grants were put in so the base rate would end up being $15.

Now, you are coming in with a two-price system with a base rate of $30 for one community and another base rate at $15 for one and that is a total departure from what we did in the past.

Mr. NAYLOR. I do not know if characterizing it in that fashion is appropriate. Certainly within your own State, as you well know, there are areas as high, say, as $50 because of the difficulty of getting water into that area. I have helped dedicate, along with you, some of those systems. We also have areas in California where there is a base rate of under $10 for unlimited water. An increase of $4 or $5, while well within what would be considered a reasonable increase, in that area would seem to be an excessive increase. Each one of these cases has to be looked at individually. We have always attempted to maintain comparability and some reasonableness to the rate. But we have not always put the emphasis on the poor communities and the communities most in need and most rural. We have seen water systems go into areas that clearly should not have had any money from us at all, including some resort areas. I think the effort we are attempting to make is to move our program, where the Government involvement exists, to those areas that most need it because of income and because of other factors in the areas of health and sanitation and to give them the greater assistance if truly needed; to get away from some of the systems, some of the areas we probably should not have been in. That is a change, but it is consistent with what Congress asked us to do. Certainly we have had several Congressional reports directed out of the Congress and the committees that directed us in putting more emphasis on helping poor communities, directing grant money in that direction; making them available to communities with truly rural characteristics. The regulations and revisions we made were consistent with that.

Mr. SHUMAN. Senator, if I might add one more point, we have struggled with ways to have a multirate system in one community and that becomes very difficult for us to deal with.

Senator ANDREWS. Again, on another one of your programs, the community facilities loans, we have lost money to pooling. We were allocated $625,000. We used $200,000 and we lost $112,005 to pooling in March.

We have several applications for section 515 rural rental housing for the developmentally handicapped. These people have been informed that their applications are pending in the national office, where it is being determined whether they should get section 515 funds or community facility funds.

If Farmers Home decides that they must apply for community facility loans, they will be faced with two serious problems: first, they must start the application process all over again, and the homes could not be built before the freeze sets in in North Dakota. Unfortunately, in North Dakota, we have two seasons. We have winter and the 4th of July and we are not too sure about the 4th of July. You have to do most of your building in the summer. You cannot wait until September.

Second, by the time any applications could be processed for community facility loans, we will have lost our funds to the August 6 pooling.

Is the administration attempting not to spend all of the money appropriated by Congress for fiscal 1982, as these delays would appear to indicate? You did not say in your statement that all of the community facility loan funds will be obligated. Do you intend to obligate all of them?

Mr. **Shuman**. Senator, you are dealing with two different programs. One is community facility and the other is 515, which is the rental housing program. We do feel we will be utilizing all of our community facility funds in this community facility program, and water and waste funds that were appropriated to us or authorized for us to lend against in this fiscal year.

As to the 515 fund, we also think we will be able to utilize that authority. We have, though, limited authority in the rental assistance program. Some of the projects that you just mentioned as being still tentative, as to whether or not they are able to proceed this year, are projects that may require rental assistance to make them feasible. Our rental assistance authority has been limited to what we call patching up existing projects that need more, or to renew expiring rental assistance contracts on existing projects.

We are going to be utilizing any remaining rental assistance authority for new construction where it deals with farm labor housing. But where a project that requires an addition to the 1-percent loan, a rental assistance contract on top of the low-interest rate and is new construction, it is very unlikely that we would be funding and utilizing loan funds for that this year.

Senator **Andrews**. On the alcohol production facility loans, Congress appropriated $250 million for alcohol production facility loans for fiscal 1982. In your statement you say one loan has been approved so far. As you know, I am very familiar with that loan. You also indicate that several loans are in the pipeline.

How many loans are pending and do you expect to obligate all of the money approved by Congress in that category?

Mr. **Shuman**. I think we have nine that we are looking at that are pending, but let me check.

It is kind of silly to say approximately nine, but if you do not mind one little hedge word in there——

Senator **Andrews**. I am used to hedge words.

Mr. **Shuman**. We think we have nine that we are looking at.

Senator **Andrews**. Which would obligate how much?

Mr. **Shuman**. I do not have that number.

Senator **Andrews**. Barnyard, roundhouse?

Mr. **Shuman**. I would not have a barnyard estimate. I know it would be a substantially lower number that we are looking at than the total authority granted.

Senator **Andrews**. Is this because you feel that other loan applications are of the pie-in-the-sky category, or because you are consciously trying to turn down other applications, so as to not spend the full amount?

Mr. **Shuman**. There has been some difficulty in developing feasible alcohol fuel production proposals for us to look at under the provisions of the business and industry regulations. Our business and industry regulations require us to have a feasible project. They are not regulations that encourage venture capital or speculative type operations or proposals, and so we do not have that many proposals for that program now as some people anticipated. I do not know if deterioration is quite the right word, but tremendous change in the production costs and the use of the products has occurred over the past several months and I am sure this has contributed to the reduction of the applications we have on hand.

Senator **ANDREWS**. Senator Leahy, will you be asking questions? I will run over and do my voting and, never fear, I will be back.

Senator **LEAHY**. Let me mention that we have had the same problem in the Vermont pooling. To be somewhat parochial here, feel free to go ahead and do a study for Vermont at the same time as North Dakota.

Let us go back to the series of questions the Chairman was asking you, because I found them rather interesting.

The Budget Reconciliation Act of 1981 mandated the first change in the interest rate charged on the loans from the Rural Development Insurance Fund. While community loans have always been made at 5-percent rate, they now have to be made at the Government's cost of money.

However, in the Food and Agriculture Act of 1981, the conferees adopted report language that clearly showed the intent of Congress was that percentages of Statewide Non-Metropolitan Median Family Income, SNMFI, be used as a guide for determining which communities should get 5-percent loans. In fact, the report language specifically said that those communities with median family incomes of 80 percent or less of the SNMFI ought to get 5-percent loans.

Can you explain for the committee why the national poverty line was chosen as a basis for eligibility instead of the SNMFI?

Mr. **SHUMAN**. The specific language that authorizes this, Senator, counsel has advised us, gives the Secretary some discretion and there is some indication that those moneys should go to low-income people. Low income has been defined to be the poverty line.

Senator **LEAHY**. I do not question that you have the ability to do it. But does that mean in your determining that you totally ignore this report language?

Mr. **SHUMAN**. No, it does not, Senator. We took into consideration the suggestions made by both the House and the Senate.

Senator **LEAHY**. Took into consideration but just did not follow them?

Mr. **SHUMAN**. Well, we think that the three-tiered system that we now have in effect for determining interest rates does give those communities with incomes below—above the poverty line but yet below the area median income——

Senator **LEAHY**. Did OMB have a little influence in your thinking?

Mr. **SHUMAN**. Any regulation that we publish, any determination that we make in the administration, is kind of a three-way effort.

Senator **LEAHY**. How much influence did they have?

Mr. **SHUMAN**. If you are talking about percentages, I would like to think I had a third, the Secretary had a third and OMB had a third.

Senator **LEAHY**. So the report language adopted by the House and the Senate had no influence?

Mr. **SHUMAN**. I thought you were asking about how we make the decision.

Senator **LEAHY**. Is that the fourth tier?

Mr. **Shuman**. I thought you asked how were the decisions made on the executive side.

Senator **Leahy**. Apparently ours did not come out in the final results. I wondered who had the most influence. But you say OMB had at least a third?

Mr. **Shuman**. As far as the excutive branch determining what the regulations should be, we do consult with OMB, with people on the Secretary's staff, and, of course, my staff in Farmers Home Administration who have had the years of experience in running these programs and working out the regulations. They have a tremendous influence also.

Senator **Leahy**. Do you keep borrower characteristics on file at Farmers Home?

Mr. **Shuman**. We have had some problems in our farm-type loans, maintaining and keeping in a usable state, borrower characteristics. If you are talking about farm-type loans, those numbers are reported but we have had trouble with our limited data processing system and capabilities summarizing those numbers.

Senator **Leahy**. So it is hard to determine whether rural residents most in need are the ones that get the loans?

Mr. **Shuman**. I was talking about farm-type loans. We do have some good figures, mostly gathered by hand, of people that receive services from one or another of our water or sewer systems.

Senator **Leahy**. Let's take a look at project selection. Both the Budget Reconciliation Act and the farm bill report language requested that a project selection system be set up. In the House Agriculture Committee report on the Farmers Home reauthorization bill, you indicated on May 17 that regulations regarding a project selection system would be ready in 30 days. What steps have you taken to implement a project selection system?

Mr. **Shuman**. The draft regulations are now being reviewed by our counsel. I am not sure what date—I did not catch the date.

Senator **Leahy**. May 17th.

Mr. **Shuman**. I am sure that was based on the best estimate from my staff. Senator, it is amazing to me how long it takes to get regulations issued. My understanding is that our counsel does still have some problems with some of the language we have on project selection, the new regulations that we are proposing to issue on project selection criteria.

Frankly, though, Senator, our present system that we utilize does take into consideration the criteria that the House and the Senate wanted us to use in making these selections.

Senator **Leahy**. The report language said that the Congress intended that 75 percent of the grant moneys available to the water and waste disposal grant program be made with 5-percent loans.

In fact, as of June 30, 1982, Farmers Home Administration has given grants to 77 percent of those obtaining market rate loans. Just 23 percent of the grant funds have been made with 5-percent loans.

Why the discrepancy or was it a case of misreading our report language and figuring it was supposed to be the other way?

Mr. **Shuman**. Again, my answer to this question would be basically the same as my response to your earlier question, and that is that we thought that there was some discretion. Counsel indicated that there was some discretion in the manner in which the Congress authorized us to proceed in developing these regulations.

We did take into consideration the suggestion of the Congress that the regulations give a lower interest rate advantage to lower income communities.

Senator **Leahy**. I agree with you, it is not written into law. Maybe that is a mistake. I appreciate that you took the suggestion into consideration. But there was a suggestion that 75 percent of the grant money accompany 5-percent loans and your response was only 23 percent. Would it be safe to say you gave us a 30 percent consideration of our suggestion? I do not want to play statistics. But I ask these questions, and I do not do it to embarrass or annoy, anyone simply because I want to know what kind of reception we are going to get; whether we can recommend things, again, unanimously in a report, or whether we are going to have to write these things very specifically into law.

Mr. **Naylor**. Senator, certainly we respond to and we pay close attention to the direction given by Congress. We have, I would concede, found that the implementation of new regulations is cumbersome under some instances, under some of the new laws that have been passed on implementing new regulations. But I think we have, in the regulations now under consideration, in large measure responded to Congress and have put much heavier emphasis on that.

On the low-interest category of loans, the 5 percent and the middle-tier loans—and there is a far more substantial share of that grant money that will be going to those with the new regulations—we reviewed the three-tier system with the leadership of the committees prior to coming out with them to determine if they substantially met the intent of Congress and both sides. It was our intention substantially to do that. These were a good set of regulations in terms of providing a three-tier structure of interest rates to be made available to communities.

Certainly we are aware that any community, whether they can afford a system or not, will apply for funds from any program that is available. But we have attempted to direct most of these funds into the smaller communities, into the communities with more rural characteristics and away from some of the projects we thought were inappropriate when we reviewed them.

Senator **Leahy**. I question whether a data bank will be available to say whether that is accurate.

I have a note that says I have less than 7½ minutes to go vote, so I will leave and I know Senator Andrews will come back.

[Brief recess]

Senator **Andrews**. The subcommittee will come to order again. My apologies.

On the category of housing programs, the financing of housing for farmers and other rural residents has been a major component of Farmers Home rural development thrust over the years. A large number of us in the Senate believe that housing should continue as a primary mission of Farmers Home and have sponsored an amendment to title V of the Senate version of the housing bill which would extend your housing program at near current levels, rather than shift the delivery to the States through block grants.

I think most of us thought that you were not advocating the changes called for in S. 2607. But in a January 23 letter, Senator Schmidt indicated to me, and I quote, "The administration now supports our proposal."

Can you clarify your position for us?

Mr. Naylor. Mr. Chairman, the administration is reviewing the proposal which has been reported out of the Housing Committee on the Senate side which includes and incorporates a rural block grant for housing. We have not sponsored or taken a position on a specific proposal. The administration, as you know, has generally supported a block grant and moving decisions back out to the States as a philosphical and general proposition which this piece of legislation incorporates. But we are reviewing it and we expect to provide a report on it.

Senator ANDREWS. How does the administration feel about our amendment to title V of this housing bill which extends your housing programs rather than shifting them to the States in a block grant?

Mr. NAYLOR. The administration has not specifically looked at that proposal. The general thrust is consistent with the administration's legislative package for this year. However, the dollar amounts are well in excess of what was in the budget and from that perspective, we would have problems with that.

Senator ANDREWS. But as far as keeping it within Farmers Home, that does not give you heartburn?

Mr. NAYLOR. Even the Senate proposal leaves responsibility to Farmers Home and we would expect that would be the case in whatever housing bill would be ultimately passed.

Senator ANDREWS. I notice in some of the testimony which will follow that until very recently, the rate of obligation of rural housing funds was lagging. I would say at this point that I find it most encouraging that people dealing with housing programs demonstrate a solid understanding of the necessity of processing farm loans at certain times of the year and the priority of protecting the Government's large investment in rural America. But at the same time, rural people need housing desperately as well as the jobs construction creates.

Have you explored alternatives to servicing various loans so that your personnel would have more time to concentrate on borrowers who most need assistance, for instance, contracting with banks or other private companies to handle routine loan collections? Would this give you the ability to let your people do the job that they do best?

Mr. SHUMAN. Mr. Chairman, we are looking at several different alternatives, several different ways that we can use the private sector to assist us in doing our work. One thing we must keep in mind though is that the loan-making decision, the serious servicing decisions that must be made from time to time, that authority, in my opinion, should remain with the loan officer in Farmers Home Administration. But we are looking at various things that we might be able to contract out, find out ways of doing faster; several different approaches, including servicing for collection in housing programs.

Senator **Andrews**. When will you have that information detailed enough so that you can come up with some plan of action?

Mr. **Shuman**. This week we should be publishing in the Commerce Business Daily a summary of proposals for bids—a summary of proposals for bids in Puerto Rico and Indiana in servicing our housing loans in those two geographic areas. Any results of what would occur as a result of that contracting effort would be sometime in the near future as far as analyzing them is concerned. We are looking at some ways in which we can speed the transfer of funds. We are looking at some alternatives and have tried some alternatives in various States of contracting with retired Farmers Home Administration people and other retired lending officials to come in on a personal service contract and do some loan processing for us. We are working very closely with many States where States are providing us some gratuitous help. That is not anything new. That has been going on for several years.

There are other things that we are looking at along those lines.

Mr. **Naylor**. Mr. Chairman, we have had considerable interest expressed by the private sector and specifically the banking community in some loan servicing firms to assist, if you will, the agency particularly in the housing area on loan making or preparation of loan documents and loan collection. I think under the contracted services provision, I think it is called Bulletin 706 in OMB, there is an excellent opportunity to do that. I think it would help us do a much better job prospectively, delivering our services, and free our people particularly during peak loan periods in the spring of the year, for the farming community to be able to render proper service there.

Senator **Andrews**. Finally, one problem that has continued to grow for 5 or 6 years is the national finance office. There has been a lot of effort and a substantial amount of money spent to try to improve the St. Louis operation, but we do not ever seem to see any results. That certainly preceded your coming to the office. But it is your problem now. It is a continual headache for you, for the farmers, for the employees, and for the Congress.

Can you give us an update regarding this finance center and the timetable?

Mr. **Naylor**. Mr. Chairman, we would be pleased to do that. In fact, I think there is a briefing scheduled for all the staff and members on the Senate side. We just completed one on the House side on that type of update. I think it is this week. Certainly Mr. Shuman has expended a great deal of effort with departmental support and support by the Secretary on doing much more than in the past to take the necessary steps to get this straightened out and not repeat the types of mistakes made under the last effort.

The first major transition, which was to provide additional capacity at St. Louis, has been essentially completed and has been in operation for a while. The next major step is the transition to the Kansas City computer center of our operations to a much larger piece of equipment and a much more capable piece of equipment in meeting the Agency needs. That is now scheduled for completion in about 1 year. The long-term solution is more in the future, about 2 or 3 years yet before we can really expect that to work through with all the contracting requirements and all the changes involved.

Mr. Shuman can address that in much more detail. It is an enormously complicated task, made more difficult by the huge number of people that got involved in reviewing what is happening. We have several people outside of Agriculture, the GAO, the Office of Management and Budget, GSA, a few others that all track with us and work with us. We have tried to overcome some of the coordination problems by having a monthly briefing for all parties concerned so that everybody knows where our warts are and where our good spots are.

Hopefully, that will short circuit some of the kinds of problems that have caused a disaster in the past and maybe we will get the job done.

Senator ANDREWS. Since it has been a classical mess and since the interest is considerable and since there have been a good number of reports made, I do not want to belabor the point. But could you provide us, since you have the briefing papers, with a rather detailed explanation of why we got there, where we are now, and what you see for the future? You could put that in the record to include as part of the testimony so that we have this record complete.

Mr. SHUMAN. We will certainly do that. I will point out that the meeting that the Secretary referred to will occur at 10 o'clock tomorrow morning in this room for interested staff people that want to be brought up to date on exactly what the progress we are making is in straightening out some of the problems.

Senator ANDREWS. Senator Leahy and I would appreciate having a concise detailed explanation of why we got into that mess.

Mr. NAYLOR. We would be pleased to do that and there is certainly extensive documentation.

[The following information was subsequently received by the committee:]

In early 1981, there was, in the Finance Office, St. Louis, MO, a backlog of unprocessed documents that was large enough to require immediate management action. Because of this backlog, the Agency was unable to produce the necessary management reports on delinquencies and had difficulty in providing borrowers with necessary tax information on the status of their loan accounts. A review indicated that the major causes were as follows:

1. Equipment that was undersized to process the current transactions in a timely manner. The FmHA accounting system must support a large Agency with over 30 complex loan and grant programs, over 2,300 field offices, 1.4 million borrowers, 1.8 million accounts, and a loan portfolio of over $55 billion.
2. A system that is dependent on the mails for moving documents and checks between the county, district, and State offices and the finance and disbursing offices.
3. Computer programs that had grown but failed to keep pace with very rapidly expanding and complex programs and that were characterized by poor structure, redundant date elements, and a lack of documentation, making them difficult to change and to maintain.
4. An accounting system lacking GAO approval.
5. A system too dependent on manual processing of documents in too many areas.
6. A system in which many needed new program changes had been postponed.
7. A system lacking in certain types of data necessary to properly manage the programs.

An immediate three-state approach was implemented.

The first step was to obtain adequate equipment for current transaction levels. In October 1981, a new mid-range main frame was installed in the St. Louis Computer Center. This equipment is expected to provide adequate processing capacity for the Agency for the two years' lease of the the equipment. Since its installation, the Agency has been able to process transactions in a timely fashion and backlogs of documents in the Finance Office have been greatly reduced.

The second thrust implemented was to convert the accounting system to run on large-scale equipment adequate for several years' growth. This equipment is located at the Department's Kansas City Computer Center. The conversion project will also document and restructure the programs, reduce redundant data elements, and provide for greater data communications potential with the States. This project is expected to be completed by the end of calendar year 1983.

The third project started was to design and implement a complete revision of the accounting system which would:

1. Obtain GAO approval.
2. Identify and provide for all accounting system information needs.
3. Select the most cost effective and program efficient automated delivery system available for the future.

The first phase of this project, a request for contract proposals to identify and justify the information needs and to provide management with some alternative ADP and communications configurations, is scheduled to be approved early this fall. The follow-on design and implementation of this redesign project are expected to be completed in 1985.

Senator ANDREWS. Senator Huddleston also has some questions that he will submit for you for the record.

[The following questions from Senator Huddleston and the Department's answers thereto follow:]

Question.—Rate of obligation.—I am concerned about the rate that Farmers Home Administration program funds are being obligated to borrowers. As you know, we are more than three-quarters of the way through the fiscal year. However, substantially less than three-quarters of the funds have been obligated for several programs. These programs include business and industrial loan guarantees and the housing program. In addition, I am particularly concerned that the Farmers Home Administration is not meeting the Consolidated Farm and Rural Development Act requirement that at least 20 percent of the operating loan funds be obligated to limited resource farmers at a reduced interest rate.

These unobligated program funds could be used to provide housing, create jobs, and keep family farmers in business during a time when our rural economy is in a depressed state. Can you assure this Committee that the Farmers Home Administration will use all of the funds provided to it by Congress for fiscal year 1982 and meet the requirements of the law in obligating those funds?

Answer. Although the pace of loan obligations this year has not matched some previous years, we feel we can do a substantial amount of catch-up in the weeks remaining. In many programs, we have "pooled" the remaining available funds at the National level so that the demand for loan funds can be filled as quickly and efficiently as possible. The troubled economic situation nationally has affected many of our programs. I can tell you that we will do everything we can to provide the most critical needs for rural credit consistent with our responsibilities to secure that interests of the Government and work with the borrowers to give them the individual attention they need to be successful.

In regard to the requirement in Section 346 of the Consolidated Farm and Rural Development Act that not less than 20 percent of the amounts authorized for insured farm ownership loans and insured farm operating loans are reserved for low income, limited resource borrowers, we have put in place the mechanism to assure that these reservations are maintained.

Question.—EPA construction grants.—The Environmental Protection Agency's construction grant program is the major source of funding for sewage treatment facilities. In 1981, the program was substantially changed. Among other changes, the share of the cost a local public body must pay is to be increased, as of October 1, 1982, from 25 percent to 45 percent.

Historically, Farmers Home Administration funds have been used by low-income communities to cover local share costs. Hence, the increase in the local share cost means a greater demand for funds from the $500 million water and waste disposal loan and grant programs of the Farmers Home Administration.

I have two questions relating to this issue:

1. Is the Farmers Home Administration meeting with the Environmental Protection Agency to work out problems with joint funds that may arise due to these changes?
2. In light of the probable increase in demand for Farmers Home Administration funds, is the Administration going to recommend any increase in appropriations for the Farmers Home Administration programs in future years?

Answer. We have discussed the proposed changes with EPA officials at the Washington level. Farmers Home Administration (FmHA) state and district office personnel are working closely with EPA field officials in coordinating reviews, priorities, and funding of projects. The communications link that has been established at the field level is generally good.

Through the 8 months of fiscal year 1982 ending June 1, 1982, FmHA-EPA joint-funding on waste disposal projects was $71.3 million from FmHA, with $146.7 million coming from EPA. This is a ratio of $1 FmHA funds to $2.06 EPA funds.

Continued emphasis will be placed on working with EPA to assure that rural communities get their fair share of the EPA funds.

The national credit situation in all sectors of the economy is a matter of key importance to the Administration. Any specific recommendations for Farmers Home programs, however, will depend on rural credit needs and the economic situation during the period.

Question.—Budget proposals.—The Administration has sought to reduce funding or eliminate certain Farmers Home Administration programs that have improved the quality of life for rural Americans. In view of the Administration's request for reduced spending levels, what will be the Farmers Home Administration's role as the lead Agency on rural development matters?

Answer. The Farmers Home Administration continues to administer several of the most important rural development programs. However, in keeping with the Rural Development Policy Act of 1980 and the establishment of the position of Under Secretary for Small Community and Rural Development, Secretary Block established the new Office of Rural Development Policy. In doing so he elevated the rural development leadership role from the responsibility of one operating agency to an office equally concerned with all USDA and other Federal rural development programs.

Senator **Andrews**. Senator Leahy had to go to a leadership meeting after his participation in the vote. He, I understand, has some more questions that he would like to submit for the record.

So with that notation, I want to thank you both for coming and we appreciate your testimony.

[The questions from Senator Leahy and the Department's answers thereto follow:]

Question 1. Loan levels for the rural development programs have been cut significantly over the last two fiscal years. We are now in our third budget cycle without a rural development strategy in place.

In February of this year, you (Mr. Naylor) were quoted in a National Association of Towns and Townships publication as saying that yes, rural programs had been hit harder by budget cuts than so called non-rural programs, but that this Administration still had a commitment to rural areas.

Realistically, in light of the budget cutbacks and absent a finished rural development strategy, could you explain for the Committee just what that commitment is?

Answer. Assuring that rural areas receive equal treatment in the distribution of Federal resources is a cornerstone of the national rural development strategy that will be presented to Congress in January 1983.

There have been cutbacks in some rural programs during this Administration. However, there is approximately $17 billion for traditional rural development related programs in the President's proposed fiscal year 1983 budget. If programs such as those for agriculture, Indian regional development, watershed and flood prevention as well as Federal impact aid are included as rural development related programs, the total nonmetro estimate is increased from approximately $17 billion to approximately $18 billion. These funds, along with the President's emphasis on economic recovery, utilizing the private sector, and encouraging the use of voluntarism, demonstrate this Administration's continued commitment to rural development.

Question 2. In your rural development strategy progress report, you note that you are working to identify emerging rural issues. Can you tell the Subcommittee what these issues are?

Answer. Our search for emerging issues critical to rural development is still underway and is covering a wide range of rural interests, e.g. individual citizens, local and State governments, public and private interest groups and Federal agencies. To assist us in this effort, we are relying heavily on the Secretary's National Advisory Council on Rural Development.

Although this task is not yet complete, the following issues have been identified as candidates for inclusion in the final assessment:

Increasing the export of raw and processed agricultural products, and other rural products;

Preservation of prime farmland;

Ensuring rural-urban equity in block grant administration;

Strengthening State and local governments' capacity to deal with rural development;

Increasing rural access to needed information and expertise;

Removing regulatory impediments;

Helping rural people and communities find access to private sector credit on terms they can afford; and

Strengthening the use of voluntarism and private sector initiatives by rural governments as a way to expand their ability to achieve local program objectives.

Question 3. How will your emerging rural strategy deal with these issues?

Answer. The strategy will deal with issues such as those given in question 2 in a variety of ways depending on the type of action needed to resolve them. The annual strategy report will address those rural issues deemed most critical by either reporting on actions being taken or to be taken by the executive branch to resolve the issues. Such actions could be in the form of legislative recommendations, federal policy regulations or procedure change recommendations, or budget recommendations. Furthermore, some issues may require additional study. In these cases the recommendations would be for a research and analysis effort.

Question 4. In that same strategy, you also note that efforts will be made to encourage the private sector to increase its activities in rural areas? Can you tell the Subcommittee of concrete evidence of private sector involvement, or promises to do so—by industry and the name of the companies involved?

Answer. Private industry is already actively supporting rural development. The attached directory of counties and their private partners in community service, printed last month by the National Association of Counties, gives some excellent examples.[1]

The USDA is working through the rural development committees in each State to enlist USDA State and county offices to identify and assist community rural development projects that are receiving private sector support.

Each State is being asked to forward examples of the most successful private sector rural development initiatives to the Office of Rural Development Policy. Some of these examples will be included in the National Rural Development Strategy report to be submitted to Congress next year.

Question 5. In combination with Senator Huddleston. The Rural Development Policy Act of 1980 required the USDA to provide leadership across the Federal Government in coordinating a rural development policy. What steps have you taken to do this? (Leahy)

Speaking on April 14 to the National Advisory Council on Rural Development, Deputy Secretary Lyng said, "Many of the water and sewer and other community development programs were valuable in stimulating industrial growth in rural areas, in giving rural people alternatives as the agricultural revolution resulted in decreased demand for labor." Off-farm employment is now the main source of wages for rural residents. More people are moving there than ever before. If those programs were so successful, as Secretary Lyng said, what made them expendable now? (Huddleston)

Answer. We have taken the following steps to provide leadership across the Federal government in coordinating rural development policy:

Starting with the cabinet level, at Secretary Block's suggestion, the President expanded the mission of his Food and Agriculture Council to include the rural development function. We are proposing that a subgroup of this Council be formed to address interdepartmental issues are identified in the strategy and to serve as the ongoing mechanism for coordination and presentation of rural development issues to the Cabinet Council. This group would be composed of the appropriate Assistant Secretaries from Federal departments and agencies.

The Office of Rural Development Policy has contacted over 100 Federal Departments, offices, and independent agencies to ask them what steps can be taken government-wide to improve Federal rural development efforts. This step was taken as an integral part of the strategy formulation process.

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[1] The directory referred to above, because of budget constraints, has been retained in committee files.

Within the Department of Agriculture at the national level, the Secretary has formed a Rural Development Committee of his Policy and Coordination Council. This Committee's working group meets monthly to identify and resolve interagency issues as well as to identify issues that need to be resolved at higher levels.

At the State level the Secretary has established rural development committees of State level USDA Food and Agriculture Councils (FACs). The Councils and the Committees are composed of senior State-level USDA agency officials. State FAC Rural Development Committee members participate in broad, State-wide Rural Development Committee where they exist and encourage their formation where they do not exist. These broad based, State-wide Committees are usually made up of representatives of USDA and other Federal agencies, State and local government, and the private sector.

Finally, USDA has initiated contacts with individual agencies with regard to specific programs which impact on rural development. These efforts are designed to ensure a rural development emphasis where applicable.

Question 6. On page three of the rural strategy progress report, you make mention of the fact that rural governments are having to anticipate and adapt to a variety of social, economic, and demographic changes and to provide an increasingly diverse array of public services.

On page 20 of that same report, you mention that the Administration's policy is one of providing technical information and knowledge transfer to help local governments increase their role in initiating and managing rural development.

My question is where is the revenue going to come from to pay for these services if all the Federal Government is going to do is provide information?

Will local governments wind up increasing local taxes to pay for these new services?

Answer. Rural governments are, collectively, going to provide increasingly diverse services but each individual jurisdiction will not have to deal with the entire spectrum. People are able to choose the level of taxation and corresponding package of local services. We do not believe the federal government should preempt this ability to choose; we should not set local priorities from afar. We have and will continue to maintain direct assistance programs to people and places which have limited resources in order to help them share in the prosperity that characterizes many rural areas. The local political process is the best mechanism for determining the priority of services and choosing the best method for paying the costs.

Question 7. As you may know, 1981 amendments to the Environmental Protection Agency Construction Grants Program for wastewater treatment facility construction have resulted in the following changes:

a. Payments to communities for preliminary and design engineering projects have been ended, placing an increased financial burden on low-income rural communities.

b. As of October 1, 1984 local share costs will rise to 45 percent. FmHA has traditionally picked up this increase.

What we are in effect doing, however, is shifting the burden for financing rural communities wastewater treatment facilities from the $2.4 EPA program to an FmHA program of $500 million.

Is FmHA working with EPA to work this out?

In light of the increase in local share costs, will the Administration recommend an increase in appropriations for the FmHA programs?

Answer. We have discussed the proposed changes with EPA officials at the Washington level. Farmers Home Administration (FmHA) state and district office personnel are working closely with EPA field officials in coordinating reviews, priorities, and funding of projects. The communications link that has been established at the field level is good.

Through the 8 months of fiscal year ending June 1, 1982, FmHA-EPA joint-funding on waste disposal projects was $71.3 million from FmHA, with $146.7 million coming from EPA. This a ration of $1 FmHA funds to $2.06 EPA funds.

Continued emphasis will be placed on working with EPA to assure that rural communities get their fair share of the EPA funds. Also, emphasis will be placed on working with investment bankers and other commercial credit sources to maximize their participation in the funding of water and sewer projects and community facility projects in rural areas. The FmHA State and District office network will serve as liaison between rural project officials and the various commercial lenders.

Also, FmHA will work with applicant officials to develop the most appropriate facility at the lowest possible cost. By following the above criteria, we hope to minimize the impact of such budget reductions and therefore do not expect to request an increase in FmHA programs at this time.

Question 8. Joint-funding of community facility projects with other than non-FmHA federal programs is being recommended and encouraged by FmHA. However, a field notice sent out by Mr. Shuman's office on June 24, 1982 indicates that since October 1, 1979 only 3.3 percent of all FmHA community facility projects were joint-funded with private, commercial state or local resources. Realistically, what percentage of community facility projects do you expect to obtain from non-federal sources?

Answer. The Administration has placed special emphasis on the joint-funding method of project financing. Field offices are being encouraged to contact non-federal funding sources early in the development cycle of each project to determine whether it is suitable for joint-funding. Also, because each funding source has preferences based on the type and size of project which are often distinct from the others, field offices have been directed to increase their contacts among the full range of funding sources. Because this effort is just getting under way it is difficult to project a percentage at this time. However, we are committed to the concept and through training and procedural requirements we expect a continual increase in the amount of joint-funding.

Question 9. You have indicated on many occasions that it is the intention of your agency to target FmHA funds to "truly rural" areas, which I take to mean remote, rural areas. What effect will this policy have on service to so-called extra-territorial jurisdictions (low-income, often minority, unincorporated areas adjacent to municipalities) which historically have been excluded from access to existing, municipal facilities?

Answer. The intent of the truly rural regulation is to primarily direct water and sewer and community facility funds to those areas not closely associated with larger cities.

As you know in the case of water and waste projects and community faciliity projects, cities and towns of up to 10,000 and 20,000 population, respectively, are eligible for FmHA assistance. These areas and the unincorporated areas surrounding these cities are eligible for FmHA assistance.

The truly rural regulation is a priority factor taken into consideration when selecting projects for funding and is not an eligibility criteria. The objective of the regulation is to direct funds to truly rural areas that are unable to finance their projects from other resources. The regulation does not prohibit FmHA from funding a project near a larger community if the area is truly needy and resources are not available from any other source.

Question. 10. As of June 30, 1982 FmHA has allocated approximately 18 percent of the available guarantees under the Business and Industrial Loan Program.

Can you explain this for the Subcommittee?

Answer. As of July 24, 1982, we have obligated 28 loans for $32,919,950 out of the authorized $300 million for B&I projects and $250 million for the alcohol fuel facilities loans. This low obligation rate is a result of several factors.

First, the economic environment was not conducive to business expansion where high interest rates have made it very difficult for borrowers to obtain financing for projects at reasonable rates and terms. Many prospective borrowers have delayed their plans for expansion. In most areas of the country, lenders indicate loan demand for new loans is down substantially and this is reflected in the number of requests for loans we have received.

Second, at the end of the 1981 fiscal year, there was an effort made to approve all sound and feasible loans in the system to utilize available lending authority. This caused the pipeline of loans to be depleted for this year.

Third, based on our experience, we have initiated a revision of the regulations to improve the quality of loan applicants.

Question 11. In combination with Senator Huddleston. In answers submitted to the committee on the FmHA reauthorization legislation, you noted that to this point the business and industrial loan program had saved or created more than 276,000 jobs. In light of the high unemployment currently wracking the country and the fact that off-farm employment is where the majority of rural residents now work, can you explain your opposition to the reauthorization of this program? (Leahy)

Farmers Home Administration Leadership.—A provision in the Rural Development Policy Act of 1980 requires the Secretary of Agriculture to assume a lead role in coordinating rural development matters through the Executive branch. Could you describe how this provision of the Act is being met, and provide examples of the accomplishments to date? (Huddleston)

Answer. The success of the business and industrial loan program in creating jobs in the past few years has demonstrated that industry is willing to locate in rural areas. One of the primary purposes of this program was to provide B&I related job opportunities in rural areas to stop the trend of outmigration of people from rural areas due to lack of job opportunities. Evidence exists that the trend has been reversed. The success rural lenders have experienced using the guaranteed lending program should encourage these lenders to continue making these loans without a Goverment guaranty. Therefore, we have recommended the program be discontinued.

Question 12. Housing obligations have been far below appropriations levels.

a. What efforts are you making to ensure that the funds Congress appropriated will be used? Will they be obligated by the end of fiscal year 1982 or do you plan to request a rescission or deferral?

b. Have you communicated any concern to the State Directors in those states with the lowest obligation rates?

Answer. FmHA obligations have been far below authorization levels due to various reasons. Notwithstanding, the Agency has made some efforts to ensure that funds are used for the current fiscal year. Among these are:

1. On April 19, 1982, Administrative Notice (AN) No. 686(1940) was issued to the field reiterating that State Directors have a responsibility to deliver and administer a sound credit program.

2. In addition, FmHA An. No. 686, indicated that the pooling of rural housing (RH) and RH funds would be pooled on June 30, 1982, instead of at a later date due to the large amount of funds remaining. This would assist States which would have need of additional funds.

We anticipate that the Agency will be able to obligate the majority of its fiscal year 1982 housing funds, and that therefore, a request for a recission or deferral will not be necessary.

In addition to FmHA An No. 686, the State Director's attention was brought to this issue during their meeting with the Administrator in Chicago, Illinois on April 20–23, 1982.

Question 13. Many local applicants complain that FmHA discourages them from developing rehabilitated rental housing units.

a. What is your position on use of rental housing dollars (Secs. 515 and 514/516) for rehabilitation?

b. Have you done anything to encourage this use?

Answer. FmHA has not discouraged developers from proposing rehabilitation of rental housing units. The agency has authorized the rehabilitation and conversion of a number of existing structures throughout the U.S. during the past few years. However, the Agency has encountered some problems in some proposals where the cost of purchase and rehabilitation exceeded the cost of new construction, where there were poor locations, and where the proposals were not able to meet certain other requirements, such as, the provision of adequate parking and of active and/or passive recreational areas. Further, on February 24, 1982, the Agency published for proposed rule in the Federal Register a change to program regulations which would permit loan funds to be used in structures where the proponent already owned the building.

The same proposed change provides clarifications on the rehabilitation and conversion of any building.

Question 14. Serving those most in need is often referred to as targeting. You have no targeting mechanism for the 502 homeownership program and have published proposed rules that would weaken your ability to serve those most in need.

a. How do you account for this in light of your sated policy to target assistance to those most in need?

b. What action do you plan to take to remedy this situation?

Answer. The Agency correctly targets funds to low- and moderate-income applicants. Currently, 92 percent of our 502 RH loan funds serve low-income applicants. Low-income applicants are applicants with income below 80 percent of area median income. Sixteen percent of our 502 RH funds and 83 percent of our 504 RH funds serve very low-income applicants which are applicants with income below 50 percent of area median income. Six states use more than 30 percent of their RH funds to serve the very low income. The Agency has not implemented further targeting because of the added administrative burden and because it believed targeting would not substantially change the above fine record of serving those in most need. In our opinion, targeting could provide priority consideration of those in most need but does not necessitate an increase in the percentage of loans to this income group.

However, the Agency has studied a new priority processing system which limits the administrative burden and gives priority consideration to very low-income applicants and applicants occupying substandard housing.

This new approach is planned to be implemented in September of this year.

Question 15. How many housing loans would FmHA make next year if they all carry a market rate of interest as the Schmitt bill proposes?

Answer. It is difficult to project a specific answer to this question since the Schmitt Bill provides for housing block grant which offers considerable flexibility to states in how they would provide the subsidy. For example, states may option to use their block grant monies to buy down the front-end of the mortgage in order to enable families to meet the cost of housing. If this were the case, the number of loans would be considerably reduced. On the other hand, states may opt to provide subsidy in the form of interest credit similiar to the method presently being used by the Farmers Home Administration. If this option were followed, considerably more families could be assisted in any one year. We would point out, however, that in our opinion, a very small percentage of low- and moderate-income families could afford the mortgage payments of a full market rate loan without the assistance of a subsidy in one form or the other.

Question 16. What is your position on the Schmitt bill (S. 2607)?

Answer. The Department recommends enactment of Title V of S. 2607 with amendments which are required for effective administration of proposed legislation.

Question 17. How many amendments to S. 2607 has the department recommended or suggested to the Senate Banking Committee?

Answer. Our discussions have referred to about a dozen questions arising from the bill as reported to the Senate.

Senator **ANDREWS**. Next, we will hear from a panel consisting of Norman DeWeaver, Harold Wilson, Aliceann Wohlbruck, and Herbert Collins.

We are glad to have you here. Let me explain the ground rules that we operate under in this subcommittee.

First of all, because you have taken a great deal of effort to appear before the subcommittee and you have some rather detailed and most intriguing statements for the record, as well as some charts and columns of figures, I want to assure you that your entire statements will appear in the record. Each of you may proceed to either summarize it or read it as is and I will ask a few questions that occurred to me when I looked at the advance presentation that you submitted.

First of all, we would be glad to hear from Norman DeWeaver of the Center for Community Change.

STATEMENT OF NORMAN DeWEAVER, CENTER FOR COMMUNITY CHANGE

Mr. **DEWEAVER**. Thank you.

My name is Norman DeWeaver and I am associated with the Center for Community Change, which is a nonprofit national technical assistance organization.

I appreciate the opportunity to have the statement submitted in full into the record and will concentrate just on the latter part of it,[1] dealing with the two critical needs that remain, the availability and affordability of potable water and sanitary waste disposal.

As you pointed out in your questions to the administration witnesses, there is a very serious problem in the administration of these programs in Farmers Home Administration. The interest rate has more than doubled since last October, and the amount of loan and grant assistance has been cut by more than half. When this happened, as a result of last year's budget process, the President proposed concentrating assistance on communities too small and too poor to be able to afford the facilities they need without Federal help.

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[1] See p. 44 for the prepared statement of Mr. DeWeaver and p. 47 for a letter dated July 28, 1982, in answer to questions from Senator Leahy.

Congress has supported these priorities in the committee report language which you referred to earlier. Rural community based development organizations also support those priorities on the theory that what limited assistance is available should go to those communities that need it most.

However, Farmers Home has not run the program that way, based on the information we have seen. In fact, loan assistance to the poorest rural communities, those with median family incomes communitywide below the poverty level, totaled perhaps 15 percent. Mr. Shuman said it may be as low as 10 percent of the water and waste loan funds that have been made available since the beginning of fiscal 1982.

This shows that relatively little of the loan assistance has gone into the poorest communities.

Grant assistance, which is supposed to be targeted to poor communities, was seldom offered in the poorest communities. According to the figures we have, only 23 percent of the grant funds obligated in the first 6 months of fiscal 1982 were used in connection with 5-percent loans. As Mr. Shuman indicated, Farmers Home has still not published the regulations which you called for in the conference committee report on the Reconciliation Act of last year, adopted more than a year ago. What is happening is very clear, and the figures from your own State of North Dakota indicate that.

The grant funds are being used to subsidize the market interest rate on projects in moderate to higher income communities. We would submit that that was not the intent of Congress when it made the changes in the interest rate for the loan program. The results that have occurred are directly attributable to the way in which longstanding Farmers Home rules intersect with the mathematics of project feasibility. The rules simply do not match the feasibility requirements involved in building projects at rates that people can afford.

The practice in the field is confused because of the effect of the interest rate increase and because of the reduced availability of both loan and grant funds.

We would submit that the changes which Farmers Home is proposing in the regulations will not solve the problem either. They will simply make it worse. They will compound the contradictions written into the current rules. The intermediate interest rate, of which Farmers Home makes much, will still not make projects in lower income communities feasible. The grant assistance remains oriented to serving an interest subsidy function rather than helping the lowest income communities.

Also, beyond that, Farmers Home has talked about trying to get assistance through other means, including private sector lenders.

I have been associated with one project of that type myself where a $100,000 private sector loan commitment to a rural water system serving very low-income people was abandoned by the lender because Farmers Home would not sign the subordination agreement. FmHA staff looked at it for 4 months and, in the meantime, the loan commitment fell by the wayside.

So there are some problems with what Farmers Home says it is doing in terms of involving private sector lenders.

We would submit that the only way to cut through this tangle and implement the policy and priorities that the President and Congress have set forth is to concentrate available assistance on communities too small and too poor to afford their essential facilities. It is to do what Senator Leahy suggested and mandate by law very explicit rules governing the selection of projects and the calculation of interest rates and amount of grant support to be provided to individual projects.

We deeply appreciate your support, Mr. Chairman, for the change with respect to the interest rate which is incorporated in the bill which the Agriculture Committee has approved for reauthorization of the Farmers Home water and waste disposal program. We submit that you have to complete the job by adopting additional changes that are contained in the Farmers Home reauthorization bill reported out of the House Agriculture Committee to insure that what you do with respect to the interest rate is not undermined with respect to what Farmers Home does with its grant funds.

The project selection system is also important so that there can be some accountability for how Farmers Home spends its money. The changes in this one area do not constitute, and we would be the last to say that it constitutes, the comprehensive rural development policy which is very much needed. However, it would address in the meantime what is still one of the most basic needs for rural America, the need for a safe, reliable and affordable supply of potable water and a sanitary means for disposal of waste water.

Senator ANDREWS. Thank you for an excellent statement.

When I was questioning our UDSA witnesses, I indicated that many communities might be better off in getting grant money and an 11⅜-interest loan than 5 percent or 8⅜ interest on the total amount of money needed. Have you found this to be true nationwide?

Mr. DEWEAVER. Yes.

There is evidence from the field organizations that are working with the program that in fact what is happening is that Farmers Home is taking the grant money and writing down the market interest rate for projects in higher income communities. We submit that is not the desirable way to go. The way to avoid this problem is to look at how all the pieces of the program work together and to mandate by law separate formulas for both the interest rate and the grant rate to insure that the communities that need the money most have the first access to it.

Senator ANDREWS. Do you find nationwide that they seem to have deep sixed the lower interest money and just are not making any loans at that level. Then by using grantsmanship, I guess you could call it, they succeeded in getting some loans made at the higher interest. They will then try to trumpet it by saying we raised the interest rate and saved a lot of money, when they are not in fact saving a red cent. They are just making extremely difficult the process of negotiating toward the ultimate loans because nobody knows what the ground rules are.

Mr. **DeWeaver**. We would agree with that analysis totally, Senator. The way in which the rules of the program are working is that the only way they can achieve project feasibility is to use the grant money to subsidize the higher interest rate. As the results from your own State indicate, very few communities are getting 5-percent money and very little of that money has been expended in most States.

Senator **Andrews**. Do you have any indication of how many communities have simply had to give up the idea of improving water and waste disposal systems because they just could not afford the interest rates?

Mr. **DeWeaver**. That is very difficult to quantify but it is clear that it is a lot. There is great confusion in the field because of the difficulty of achieving project feasibility under these interest rates and many, many communities have been informally dissuaded from applying on the grounds that Farmers Home cannot make a commitment, will not tell them what the status of their project is and generally discourages business.

Senator **Andrews**. I appreciate very much your coming. Again, I apologize for the delays.

Next, I would like to hear from Harold Wilson, the executive director of the Housing Assistance Council.

Mr. Wilson, let me assure you that your full statement will appear in the record.[1]

STATEMENT OF HAROLD WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. **Wilson**. I would like to summarize my statement and I appreciate the fact that it will be included in the record.

I am the executive director of the Housing Assistance Council which is a national nonprofit housing organization assisting in the development of housing for low- and moderate-income families in rural areas.

First of all, I would like to thank the committee for holding these hearings and for your long-standing interest in rural development; and even though the Farmers Home Administration is not within the jurisdiction of this committee, we appreciate very much the opportunity to come and talk about the rural housing program as a result of the larger rural development tools that this agency is concerned with.

While to some, rural development has more limited parameters, we see it encompassing the whole social and economic spectrum, including population distribution, economic distribution, and environmental quality. Issues of employment opportunities, local governmental capacity, support for the poor and stewardship of water and other natural resources demand a national perspective. If rural families, regardless of income or location, are to have an opportunity for a healthy and productive life, the interdependence of these issues and the need for a strong Federal presence must be recognized.

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[1] See p. 48 for the prepared statement of Mr. Wilson and p. 64 for answers to questions from the committee.

One area where all these issues come together most immediately is the basic requirement for shelter in a healthy family and community environment.

The role of Farmers Home Administration in national rural development policy must also be maintained. Over the years, the Farmers Home Administration has established an effective delivery mechanism for rural credit servicing, having loaned or granted over $35 billion. It has done so despite stark understaffing and a low, constantly decreasing ratio of staff time to money loaned. The agency is still needed to overcome glaring deficiencies in infrastructure, capital for some operations, adequate housing and sanitary water and wastewater facilities.

As a lender of last resort, Farmers Home credit is supplementary to private-sector activity, servicing a low-income population far removed from conventional lenders.

Even though a number of problems have been currently voiced about the housing problems, and I would like to discuss a number of those in a moment, we strongly feel that these criticisms can be addressed through legislation and reform of the existing Farmers Home Administration delivery system and not by either eliminating the program, by reducing their budget levels to ineffective levels, or by block granting their interest credit and grant funds to the States.

The administration's fiscal year 1983 recommendations for Farmers Home housing programs represent a 67-percent reduction from fiscal year 1982 and reduce the program capacity to ineffectual levels. These recommendations are even more unfortunate in the light of the fact that nonmetropolitan poverty has increased by 8.3 percent from 1980, from 11.5 million people to 12.5 million people. It is also our fear that the block-grant approach, which would leave the Farmers Home Administration as a lender only at market rate levels, would eliminate the majority of the population that currently uses Farmers Home programs because they simply cannot afford the interest rates.

In addition, we are concerned that State capability and the desire to design, implement, and administer rural housing programs is at best uneven and in many States insufficient. A bipartisan floor amendment sponsored by Senators Cochran and Cranston and 35 other Senators would amend the Senate housing bill, S. 1906, to preserve the Farmers Home Administration, reauthorize rural housing programs essentially at 1982 levels, I believe slightly below the 1982 levels; it would mandate needed changes in housing rehabilitation and targeting and would remove the block-grant provisions.

We support this approach of preserving Farmers Home Administration as an effective housing and rural development agency.

We also recognize the need for fiscal restraint and we, therefore, support the recommendations of the National Rural Housing Coalition, which calls for funding the Farmers Home Administration housing programs at approximately the fiscal year 1982 levels.

Even though we support the present Farmers Home Administration delivery system and the basic design of its housing programs, we do recognize a number of problems with the agency which directly affect the ability of Farmers Home Administration to conduct a balanced rural housing and rural development program. I would like to highlight a few of those for you, if I could.

The first is an issue that you have in fact already talked about with the Administrator and the Under Secretary and that is the nonuse of the Farmers Home Administration funds.

Farmers Home Administration's fiscal year 1982 spending record is less than desirable. With less than one-quarter remaining in the fiscal year, more than 50 percent of available rural housing program funds had not been obligated. I think this is caused primarily by a preoccupation with servicing of delinquent accounts which has created a servicing policy precluding proper attention to processing loan applications. The policy overlooked the depressed economic conditions that we are currently facing and the fact that the Farmers Home Administration borrowers are precisely those unable to get financing elsewhere.

We feel that balancing servicing activities with loan making is very important and that delinquency rates certainly should be considered.

Therefore, we cannot understand, for instance, why the Administration failed to request funds for their own counseling program or the 525 program which would enable people to assist them in servicing their delinquent accounts.

A need for an extreme acceleration in servicing does not seem justified since from its inception through 1981 only fourteen-hundredths of a percent of Farmers Home Administration loan principal has been written off.

If you eliminate all of the current property the Farmers Home Administration has in inventory and write that off, the losses would still be less than one-tenth of a percent. This rate compares favorably to that of any public or private lender.

Limiting rental subsidies to existing projects has also made many, if not most, section 515 and farm labor housing projects infeasible.

In addition, employment has been well under the ceiling while field offices cite lack of staff as a reason for not expeditiously processing applications.

As of May 29, Farmers Home was 496 positions under the OMB authorized ceiling. The terminating or not hiring of temporary employees who normally handle excess farm loan applications despite the availability of salary and expense funds is another problem. Since farm applications were given second priority after loan servicing, the effect has been devastating to housing application processing in many county offices.

Because the highest poverty rate is currently among farmers, of whom 23 percent were poor in 1981, and because they represent the greatest rate of increase in poverty, about 9 percent since 1980, it seems likely that the nonmetro poverty increases are to a significant degree due to worsening economic conditions for farmers. Even their income from part-time jobs on which they depend have disappeared. It seems unusual that the Farmers Home Administration would refuse to process loans in this kind of a climate.

I would just like to add that on the contracting issue you raised before, when you talk about the possibility for the Farmers Home Administration contracting out their servicing, this has been talked about for a number of years, and in fact during the previous administration the Farmers Home Administration tried contracting out for their rural housing servicing in North Carolina and in Oregon and in that demonstration, found that it was prohibitively expensive and dropped the demonstration. The costs for contracting out were simply too high, they discovered.

In terms of the targeting deficiencies of the Farmers Home Administration, you have heard a lot of talk about Farmers Home not being able to reach the poor or those below 50 percent of area median. Well, the section 502 homeownership program today remains totally untargeted. There were previously weighted targeted methods for the Farmers Home to use in order to use the 502 program and these have been abandoned. This is inexcusable in light of the 1979 amendment that prescribes 30 percent of funds to those below 50 percent of area median income. Unfortunately, Farmers Home, as I indicated, removed those weighted priorities last year and as a result the 502 program is not now targeted to low-income families.

We feel that Farmers Home programs should serve those most in need. This can best be achieved, we feel, through changes in the existing program such as section 504(a) of the Cochran/Cranston bill that I mentioned earlier.

Also, in the area of housing rehabilitation, the Farmers Home Administration has made it extremely difficult to utilize the rural rental program with rehabilitation. Legislation requiring a reasonable policy for rehabilitating adequate structures under the 515 program should be developed.

Senator ANDREWS. Thank you for sharing, with the committee, your excellent statement.

I agree with you, the Farmers Home Administration not only is an adequate route but it is the cheapest and the best all the way around route to provide these services. The people are already there. They have the expertise in the community. They have experience in housing and rural development. To try to duplicate that type of service with some new agency or some block-grant program just, I think, would further complicate things and increase the cost.

Now, also, in your statement, you talk about the rural areas that are made up of the poorest residents and many of those who support a block-grant approach to rural housing programs say that Farmers Home funds are not going to the most rural areas or to the poorest residents.

How would you address these concerns?

Mr. WILSON. I think I would address, first of all, the concern on the money going to the poorest residents, simply by mandating a—mandating that the Farmers Home Administration come up with a targeting procedure that assures that funds will be delivered to the poor. In the Cochran/Cranston amendment there is some language that requires the Farmers Home Administration to establish a weighted priority system based on low income and families living in substandard housing, and I think that that kind of language will go a long way toward requiring them to target their funds and I believe if they do target their money, that they can in fact serve a low-income population in rural communities.

Senator **Andrews**. But in the case of waste and sewer services, if you go down the street you have to take the low income with the moderate income with the high income or you are not giving areawide service. If you arbitrarily say community A, has too high an income even though it has a more desperate need for water and sewage connection what happens to the poor in that community? Are they totally foreclosed because they chose to live in the wrong community or because the only housing they could get might be in a community that overall has a few more well-off families than a community down the road.

Mr. **Wilson**. I would let my colleagues who deal with the water and waste programs of the Farmers Home respond to that.

In terms of housing, the Farmers Home Administration should not necessarily target its money to the poorest communities but to target its money to the poor that live within the rural communities of its jurisdiction and this means, quite simply, that the Farmers Home Administration housing programs can have a significant impact on communities, particularly if they allow rehabilitation to occur, with the rural rental program.

As an example, when I was working with a nonprofit group in Massachusetts, we went to a middle-income community that had spot areas of poverty located within it, made a significant impact on the community by simply rehabilitating a number of rundown structures in that community that allowed the poor to live in some kind of decent shelter within the towns and the towns overall received a significant impact because of a minimal amount of Farmers Home investment for the poor.

Senator **Andrews**. Good. Appreciate that.

Our next witness is Aliceann Wohlbruck, who represents the National Association of Development Organizations.

Let me assure you that your full statement will appear in the record as if read. You can proceed to summarize it or proceed in any fashion you wish.

STATEMENT OF ALICEANN WOHLBRUCK, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Ms. **Wohlbruck**. Thank you.

I am Aliceann Wohlbruck. I am executive director of the National Association of Development Organizations. You have that statement.[1]

The other statement that I would like to submit for the record is on behalf of the Rural Governments Coalition, of which I am the past chairperson.[1]

Senator **Andrews**. We are glad to accept that statement for the record, too.

Ms. **Wohlbruck**. The groups in the Rural Governments Coalition are the National Association of Counties, the National Association of Development Organizations, the National Association of Regional Councils, and the National Association of Towns and Townships.

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[1] See p. 66 for the prepared statement of Ms. Wohlbruck, and p. 72 for the statement of the Rural Governments Coalition.

We are all concerned with rural government issues as opposed to agriculture or other types of issues. Our focus is on the impact of problems on rural, smaller governments.

Senator **Andrews**. The statement should be made that you speak with great force.

Ms. **Wohlbruck**. I have been at it a while

Let me briefly summarize.

Our organization (NADO) is made up of multicounty planning and development organizations. These are organizations that exist in your State, Senator, and throughout the country of local elected officials and private-sector people. Our main concern is with private job creation and economic development in smaller cities, rural counties, and small towns.

Our program is very much a grassroots operation because it is run by local elected officials and private sector individuals from those communities. Our testimony talks about not only the Farmers Home programs in specific but also asks that the Congress take a look at the overall budget in terms of rural development programs including the Economic Development Administration, Farmers Home programs, and the Appalachian Regional Commission. We think, when you look at the overall budget cuts for business, community, and economic development, you are going to find that the rural side of these programs has had much larger percentage cut than the urban side of the programs. In fact, if you will notice, attached to the statement of the Rural Governments Coalition is a letter dated June 19, 1981, from the Office of Management and Budget.

This letter says; "We realize the impact of the administration's proposed 1982 budget reduction falls more heavily on rural and small communities than on larger urban areas."

We are particularly glad to have a chance to raise this issue with the subcommittee and with you and Senator Leahy who have been working on rural development issues for some time. Although you do not have jurisdiction over all of these programs, it is important to look at them in a comprehensive sense and to realize that if we do not stop reducing rural programs there will be no growth in nonmetropolitan areas. In States like yours (North Dakota) and the other Plains States, there is certainly not continued growth.

There is still a lot of outmigration.

Senator **Andrews**. Has your organization ever done a study comparing the cost of upgrading the water and sewers and the housing and the rest in a rural community and in a sense the medical care and the whole infrastructure to encourage individuals to stay in a rural community, as against providing these people with the services and the rest they will require if you force them out of the area and move them into a metropolitan area where I would expect the square foot per housing, the cost for pollution impact, the cost for a whole host of other things is much higher per capita than in rural areas.

Has anyone done that kind of study?

Ms. **Wohlbruck**. Like most rural groups, we are very small. We do not have that capacity. But, it would be a good idea, since we have now an Office of Rural Development, to ask the administration to look at that. They have taken much bigger cuts out of our rural programs that are designed to keep people there, not to export the talent. We find unemployment is much undercounted in rural areas because people leave or else they were not eligible for unemployment benefits in the first place.

Senator **Andrews**. It always bothered me when we build elderly housing, that we build it in the principal large cities of the State. We force people to move into a beautiful, 200-unit housing complex when an 8 to 12 to 16 housing complex in a town of a thousand would let the people stay where they grew up. They could go to the church they have always gone to, know the neighbors down the street and again, the cost of that housing for the elderly in the rural area would probably be considerably less than moving them into the city. The human impact would be far better in allowing them to stay where their roots are. We are accelerating the migration from rural areas to the bigger cities by what we have done over the past 25 years in the Government. I do not think it is in the best interests of the country.

Ms. **Wohlbruck**. Well, you gave my statement better than I could. That is our point. If you create jobs and you create a balanced economic situation in rural areas, you are going to keep more small farmers in business. The structures study showed that several years ago. There is an article in my statement from the Washington Post that says the only communities with any luck in the recession are those with some kind of balanced economic growth.

A study in 1981 showed that it is much more difficult to get capital for businesses in rural areas than in the suburbs or big cities. We hope all of these problems are the kinds of things that the rural development office and the National Advisory Council will take into consideration as they develop a rural policy. We think the FmHA water and sewer money is very important because it can be used to help maintain and attract small businesses.

If you will notice in the testimony, we have a couple of examples from North Dakota where there are loans of only $80,000 and $32,000 for eight jobs. Nobody would notice that in a big city, but in a small community it is very important and eight jobs mean a lot.

We do not think such programs should be done away with or money not spent because these are small sums of money and small numbers of people. Those people are still important to keep in those communities and to provide jobs.

We are pleased with the administration's establishment of the Office of Rural Development Policy. We think that is a step in the right direction, and they are working with us. We hope to educate them about some of the problems you talked about and ask them to provide that kind of information to the pubic at large and to the administration.

Our main concern is that the committee take an overall look at budget cutting in terms of some fair distribution of cuts. We urge that rural programs not be asked to take 60 or 70 percent of the cuts while the urban development programs are reduced much smaller amounts.

Senator **Andrews**. Thank you for an excellent statement. You represent your client very well

You may have noticed in Mr. Shuman's statement that he pointed out that a major ingredient of the rural development strategy is, as they say, greater reliance on private lending markets. Now, have you seen any movement in this direction?

Ms. **Wohlbruck**. The studies that we have seen—and they are done by very reputable people including the Small Business Administration—have shown no interst by private lenders. We have been working with SBA to try to get more capital into rural areas. The numbers show that business and industry money is not being spent by FmHA even though Congress has appropriated it. The nature of rural banks and rural credit markets is such that most of the available money, is going for farming.

Our members are trying to encourage a diversified economic base in rural areas and they have not seen any great increase in the private sector being able or willing to go into small towns with venture capital for business.

Senator **Andrews**. What changes would you suggest in our present regulations to insure that this assistance goes to the most rural areas?

Ms. **Wohlbruck**. Our concern is that the money is not being spent in any of these programs. I do not know if it is going to the most rural communities. One of the problems with FmHA programs was that the standards were set so low that virtually nobody was eligible for the first half of the year. That tends to cut down on the number of applications and we are glad to see you are making that change.

Senator **Andrews**. They pull the money back and it goes back to a nonexistent pool.

Ms. **Wohlbruck**. Our people have gotten discouraged. What you say is correct, smalltown people do not have grantsmanship ability. NADO members try to provide that on a multicounty basis. When you are talking about small towns or counties, they get discouraged when someone says it will be another 8 months before we can process your loan application. We would like to see more direction from Congress; if the money is appropriated and laws signed by the President, then agencies should go ahead and spend the money for those programs. I think you have shown that there are many applications in North Dakota and we know that there are hundreds in other States.

Senator **Andrews**. There sure are. We have faced this time lag and frustration of delivery for at least the 15 or 16 years that I have been privileged to sit on these committees.

Again, thank you so much.

Our next panelist is Herbert Collins, who is counsel for Rural Housing and Development, and he is accompanied by Will Cooper, who is president of the Rural Builders Council of California.

Welcome to our subcommittee.

Let me assure you that your statement will be printed in full in the record.[1]

You can proceed to summarize it or whatever, as you desire.

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[1] See p. 75 for the prepared statement of Mr. Collins.

STATEMENT OF HERBERT F. COLLINS, COUNSEL, RURAL HOUSING DEVELOPMENT, ACCOMPANIED BY WILLIAM COOPER, RURAL BUILDERS COUNCIL OF CALIFORNIA, AND NOOLEY REINHEARDT, WORLD BUILDERS OF CALIFORNIA

Mr. **Collins**. Thank you.

I also have with me Nooley Reinheardt who is representing the World Builders of California, and also other interests.

Senator **Andrews**. I have heard of that gentleman before. We are glad you came with a bodyguard, the biggest and certainly the toughest guy in Washington. You sure got one of the best and brightest.

Mr. **Collins**. I should also mention that Chuck Edson, unfortunately, had to leave. He is with the local law firm of Lane & Edson, who is counsel to our group.

I will try to summarize some of the points we made in this testimony.

I think one of the things that I would like to say is that Mr. Wilson did include a number of points we will be making and you will see in the testimony. So I will try to avoid being repetitious.

But the main things, the message that I would try to convey, is we would like to see the Farmers Home Administration as it is now preserved. I recognize there are some changes that could make it even more efficient than it has been. I do not think there are major changes but I think it would be helpful.

Again, one of the changes I do not think would be helpful, one that would have the opposite effect, happens to be the present Senate housing bill as it pertains to the rural provisions. I think in fact that that particular bill would destroy in effect the program and make it exceedingly difficult for us to continue to provide adequate shelter to rural Americans.

I might add here that we would like to thank you and your colleagues who sponsored the amendment No. 1906 to title V of S. 2607. We feel that the approach taken there is a lot more effective by continuing to provide the kind of housing we want and other services of the Farmers Home Administration.

You will note that my comments would be very much along the lines of the Housing Council.

The organization I represent is made up of a number of participants from the private sector devoted to rural housing, producing rural housing in America.

I might add, whatever the program that evolves in the area of housing for rural America, our group will be involved in one capacity or another.

Our concern here is that the way the Senate bill currently provides for the financing will not work. It is not a selfish motive. We would be working with whatever agency or whatever program under which the housing is to be produced. We think, and we are confident and feel very strongly that the present system is the most effective. For many years the Farmers Home was one of the better-kept secrets in the Federal Establishment. I imagine that many of us sitting here would wish that were still true.

Throughout the years it has had an unparalleled delivery system, effectively performed as intended by the Congress and drew little attention to itself.

But as programs expanded and personnel diminished, there were a number of comparatively minor questions relating to the programs, the business and industry loan guarantee program, the emergency farm loans which focused unaccustomed attention on the agency.

Farmers Home will doubtlessly have some manner of problem as it continues to serve its multiple constituencies. But it continues to be effective in serving farm and smalltown America and really the delivery system in itself is probably the best that I am aware of and that my group is aware of. I have been involved with a number of housing programs, HUD, State agencies. Yet I have yet to see a system as effective. It is delivering housing where it is most needed.

Senator ANDREWS. You do want to speed it up a little?

Mr. COLLINS. I am coming to that, Senator.

Senator ANDREWS. You were getting so effusive with your praise. I was wondering if you know a Farmers Home Administration that was different than the one I know.

Mr. COLLINS. One of the things is the cooperation we receive from within the districts and from the national office. I do recognize that they do have other priorities, farm loans and what have you. I do recognize that I have seen an increase in the time of processing of 515 and housing applications over the last month and I also recognize there is an abundance of money left to be spent this year. I am confident that they will get most of that out.

Senator ANDREWS. We love them like a teenaged child. We have a deep affection for them. We realize their potential. We just wish we could train them a little better.

Mr. COLLINS. I agree.

I do recognize they have other problems. There are a number of ways they could speed up the processing. That works on both sides of the ledger, on behalf of the developers, for submitting the right application, and it varies from State to State. You are talking—it is a people problem more than a system.

The other major point I would like to make is that Farmers Home has always been the lender of last resort and there have been a number of assertions to the contrary. But, however, I do not believe it is true because the lending institutions in rural areas are very restrictive.

I would like to quote a portion of the Comptroller General report of March, 1980, that stated, and I quote, "The shortage of mortgage credit in rural areas contributes to the high incidence of substandard housing in rural areas."

That continues to be true. Farmers Home provides loans at reasonable interest rates. If you talk about working through State agencies at market rates, it is difficult right now to make some of these loans work even at the 1-percent level. In order to reach the people who need it, the poor people, you need some additional deep subsidy over the 1-percent-interest credit.

Another thing I would like to mention here is that I think the Administrator has made some strides, at least in our area, to improve the system. I think they should be given an opportunity to continue this effort with the programs as they are currently constituted. We do not believe that the Farmers Home has outlived its usefulness. I think that the Farmers Home Administration has gone through an orderly process of evolution, and currently it is the best and only realistic way today to deliver the services envisioned by the Congress.

We understand and realize there should be some adjustments and refinements to the existing program but, overall, the basic program in its current form should be continued.

Senator ANDREWS. Do you have any recommendations, though, on how to expedite or streamline and generally improve the process?

Mr. COLLINS. The ultimate, of course, is people, additional people.

Senator ANDREWS. More people or a better system, which?

Mr. COLLINS. I personally believe a combination—I really think they need more people. I do not believe that this system is lacking. I think they need more training of the people in the system, training of the people that are the users of the system and trainers of the personnel within the field who are implementing the policy.

Mr. COOPER. One way you might improve on a single family home development, 502 program, would be to adopt HUD/FHA subdivision procedures so that Farmers Home has a uniform procedure. Right now you have to—a developer builder, for example, doing a tract in a rural community, has to, if he wants to go one agency versus the other, has to go two separate routes. If there would be a uniform acceptance on that subdivision procedure, it would help on a single family.

Senator ANDREWS. I can understand the need for uniformity but let me go one step further.

Do you feel that the HUD criteria and standards and methods of processing are superior to Farmers Home?

Mr. COLLINS. No. Again, I base it on my experience and I would say no. As a matter of fact, I think people can criticize the time it takes to process and I am again referring to housing, but if you compare the time——

Senator ANDREWS. Are you re-editing his statement so that his statement should have said that we ought to get the HUD types—or people under the HUD program to adapt their programs?

Mr. COOPER. There has actually been a good deal of interagency—I believe the Administration can speak to this. But Farmers Home and HUD have had over the past couple of years meetings to adopt a unified——

Senator ANDREWS. Everybody is in favor of uniformity and unified systems. But when you open that Pandora's Box just a little bit, all kinds of genies come out.

Since you are here and you are testifying as an expert in the field, this is a unique place to find out whether you think the processes and procedures of HUD are superior to Farmers Home or vice versa.

From your initial statement I got the impression that you thought that the HUD procedures were better than Farmers Home.

Mr. COOPER. I am sorry. I did not mean that HUD was superior. I was merely trying to get to uniformity and I would venture to say that Farmers Home is superior but if they—if there could be some melding of HUD into Farmers Home, that might be a better approach.

Senator ANDREWS. Now, I can understand. We are back to uniformity ala Farmers Home.

Mr. COOPER. That is right.

Mr. COLLINS. If you compare the application processing time to get an application through Farmers Home to other agencies, there is no comparison. You are going to have problems. It is nothing that is insurmountable.

So the only thing I would say is I agree with Will to a certain extent and another thing is cross utilization of the users, people working with Farmers Home, hand in hand, which is what they are doing.

Mr. Chairman, that concludes my comments and I just want to thank you again for allowing us to be here and would be glad to answer any questions you might have.

Senator ANDREWS. I appreciate that.

Senator Leahy has some questions. Senator Leahy and I both have the distinct pleasure of serving on the Appropriations Committee. We have the balance-the-budget amendment on the floor. He is about as doubled up this afternoon as I was before and I know he has expressed his interest in asking further questions.

Why don't we hold the record open and we will submit Senator Leahy's questions. Could you get your answers back, within, say, 48 hours?

[The following questions from Senator Leahy and Mr. Collins; answers thereto were subsequently received by the committee:]

Question 1. The First Budget Resolution which we passed provides for funding rural housing programs at very near this year's levels, as does the House authorization bill and our version of Title V of S. 2607. Do you think these levels are adequate?

Answer. Yes. We believe they are adequate to help meet the demands for housing in rural areas and that the level can be administered by FmHA and all the funds obligated without an undue burden on personnel.

Question 2. In some quarters there are assertions that builder-developer opposition to the state block grant proposal is merely selfish and does not take into consideration the needs of lower income rural people. And a part of that same premise would be that FmHA is not serving the intended clientele. How would you respond?

Answer. That is not at all the case. We are convinced that the FmHA delivery system best provides the opportunity for rural Americans to secure adequate shelter. I think that in almost every instance a block grant system or any system which is more centralized, even after the kinks were worked out, would not be as efficient in serving the intended clientele. In addition, I think FmHA is much more cost efficient and the government's rather substantial investment is well protected.

And as I said earlier, I think a majority of us would find a way to remain involved if there was a different approach, this is our business. But complications would be much greater for everyone involved.

Senator ANDREWS. The subcommittee is adjourned.

Senator Huddleston has a statement he wants included in record.[1]

[Whereupon, at 4:44 p.m., the subcommittee adjourned, subject to call of the Chair.]

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[1] See p. 43 for the prepared statement of Senator Huddleston.

APPENDIX

Statement of Hon. Mark Andrews, a U.S. Senator From North Dakota

We have called these hearings to discuss the government's rural development policy and the programs of the Rural Development Insurance Fund—specifically the Water and Waste Disposal Systems Loans, Community Facility Loans, B&I Loans and the Alcohol Production Facility Loans.

For the last few years, I have been worried about what I perceive to be the lack of a positive, coordinated and determined rural development policy that will assure the economic well-being of our rural areas.

The Rural Development Policy Act of 1980 called for the Secretary of Agriculture to prepare a national rural development strategy. The Department has submitted a progress report to the Congress, but won't have a strategy report until next year—a full two years after passage of the law.

In the meantime, we have seen many of the rural development programs absorb large cuts, and many of the programs that remain in effect have suffered because of high interest rates. In my State of North Dakota we have already lost Water and Sewer and Community Facility funds to the national office's "pooling" process, and when the final pooling for fiscal year 1982 takes place August 6, it is expected that we will lose more funds. And, this is happening in a state that has historically spent all their funds and then received additional funds after pooling took place.

The main reason we have not been able to use all of the funds is because of the high interest rates charged. Small communities in North Dakota simply cannot afford to pay 11⅜ percent interest. The new regulations setting up an interim interest rate of 8⅜ percent interest has helped some and would probably have been of more help if it had been in effect for the entire fiscal year.

We cannot afford to delay any longer. A national rural development policy and strategy is important to help solve the problems faced by rural America and develop its potential to the fullest possible extent.

We will also use this forum to discuss other problems facing rural America, including housing needs and the general performance of all Farmers Home Administration programs. While I realize the FmHA housing programs do not come under the jurisdiction of the Agriculture Committee, they are a part of rural development and cannot be totally separated from the other programs.

The first panel we will hear from today is the Administration witnesses—Under Secretary Frank Naylor and Charles Shuman, Administrator of the Farmers Home Administration.

Before calling on the witnesses, I will defer to my colleague Senator Leahy who is also a Member of this Subcommittee, and one of the main authors of the Rural Development Policy Act of 1980. Vermont and North Dakota face many similar problems and I am sure you will find his concerns the same as mine and many of our Colleagues from rural states.

Statement of Hon. Patrick J. Leahy, a U.S. Senator From Vermont

I want to first express my deep appreciation to the Chairman of the Subcommittee on Rural Development, Oversight, and Investigations for holding this hearing today.

We in the Senate pass many laws. But it is not nearly often enough that we sit down and review how those laws are being implemented. It is my belief that a review of this kind is critically important. We must make every effort to ensure that those for whom these programs have been designed are benefiting from them as we intended. I commend the Chairman for his commitment to this oversight process.

Mr. Chairman, I wish today that our discussion could focus on legitimate administrative problems with the operation of the loan programs of the Rural Development Insurance Fund.

I wish that today we could take a good look at how the rural development strategy called for nearly two years ago by the Rural Development Policy Act was working.

Unfortunately, we must start these hearings as though we were starting again from scratch—as if the Rural Development Policy Act was never written, as if the federal commitment to rural areas begun many years ago did not exist.

This Administration, through budget cuts, regulatory actions, and non-compliance with the mandate of the Rural Development Policy Act has shown itself to be plainly and simply anti-rural.

In the President's fiscal year 1983 budget request, the loan programs of the Rural Development Insurance Fund were again under attack. Overall, they were slated for a 70 percent reduction since fiscal year 1981.

What is the rationale behind this budget cutting? Certainly not a rural development strategy. In fact, Bill Phillips, the new director of the Office of Rural Development Policy could not be here today because, according to one official in the USDA, "we don't have a rural policy yet."

Mr. Chairman, for an administration that prides itself on good management efficiencies in the federal bureaucracy, slashing rural programs by 70 percent in two years with no assessment of the damage this will do to rural America is hardly the way to run a railroad.

If the Administration had a rural strategy, it might have discerned that their budget cuts are working against trends that have recently emerged in rural areas.

Off-farm employment now accounts for the majority of rural wages—wages that still lag 20 percent behind their urban counterparts.

Yet, in a time of high unemployment and an expanding rural population looking for off-farm jobs, the Administration proposed terminating the Business and Industrial loan program—a program that has saved or created more than 276,000 jobs since its inception.

The rural population has grown by 15 percent over the past decade, from 49 million in 1970 to more than 57 million today. The trends seem to indicate that this migration to rural areas will continue.

Local rural governments are experiencing a sharp increase in demand for their services.

Yet, the community facility loan program—which helps local governments with such needed services as police and fire equipment—is cut in half by this Administration.

Water and sewer facilities are important to rural growth, especially in light of a recent Environmental Protection Agency report that shows more that 60 percent of today's rural residents are drinking water that has some contamination.

Yet, this Administration has pared back the water and waste disposal loan program by 60 percent.

On top of the budget cuts, regulations for the operation of the two community loan programs were written in such a restrictive manner that not one—not one—town in Vermont could quality for either set of loans.

In February of this year, Mr. Frank Naylor was quoted in a National Association of Towns and Townships newsletter saying that yes, rural programs in the federal budget had been hit harder than so-called non-rural programs. But he assured us that this Administration was committed to rural areas.

I respect that commitment, Mr. Chairman. But in light of the actions that I have cited, I do not see results.

Slogans about voluntarism and empty rhetoric about the private sector and the free market do not build water and sewer systems in rural areas, nor do they create jobs for an expanding rural population that depends on off-farm employment for the majority of its wages.

The Rural Development Policy Act of 1980 called for "maximizing the effectiveness, increasing the reponsiveness, and improving the delivery of federal programs to rural areas."

I am afraid, Mr. Chairman, that this Administration has instead ended the effectiveness, decreased the responsiveness, and slowed to a trickle the delivery of federal programs to rural areas.

The Administration has taken some steps forward, Mr. Chairman. They have created an Office of Rural Development Policy and a national Advisory Council on Rural Development. The Secretary of Agriculture announced on July 21 that he will be soliciting public comment on a national rural development policy.

It released a progress report on the rural development strategy.

But, the same contradictions that plague this Administration's so-called commitment to rural areas plague that report.

The introduction presents a careful overview of the the problems facing rural areas. But it proposed nothing—aside from voluntarism, information sharing, and the private sector slogan—to help alleviate some of these critical problems.

Mr. Chairman, in the Food and Agriculture Act of 1970, Congress wrote: "The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity and welfare of all of our citizens that the highest priority must be given to the revitalization and development of rural areas."

In 1972, the Consolidated Farm and Rural Development Act was passed, creating many of the programs that we are discussing here today.

In 1980, we worked in a bipartisan effort to restate and reaffirm our commitment to rural areas by enacting the Rural Development Policy Act.

Rural America is a growing, dynamic part of our country. We cannot turn our back to the unique and critical needs facing all rural Americans.

But that is exactly what we are doing if we fail to make this Administration accountable for continuing programs aimed at bringing rural America back into the economic mainstream.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

The Farmers Home Administration administers the only Federal economic development programs that are rural-oriented. These programs include ownership and operating loans to farmers who can't get credit elsewhere; loans to farmers who suffer losses because of disasters; loan guarantees for alcohol fuel production facilities; loans and grants to rural communities for water, sewer, and other essential community facilities; loans for single family and multiple family housing including projects for the elderly; and loan guarantees for rural businesses that create jobs and that are an important source of off-farm income.

These programs have been targeted by the administration as areas in which to achieve budget savings. To accomplish the savings, the administration has proposed raising interest rates, reducing program levels, eliminating the limited resource farmer loan programs, and withholding funds from the economic emergency loan-program.

In view of the administration's efforts to reduce funding levels and eliminate certain programs designed to aid family farmers and improve rural life, it is essential that the Nation have a rural development policy that maximizes the use of the limited available resources.

To comply with the Rural Development Policy Act of 1980, the administration is required by Congress to develop a comprehensive rural development strategy that takes into account the need to:

Improve business and employment opportunities, health care, educational and training opportunities, housing, transportation, community services and facilities, and accessibility to private and public financial resources for employment purposes;

Improve State and local government management, institutions, and programs related to rural development;

Strengthen the family farm systems; and

Maintain and protect the environment and natural resources of rural areas.

Through these hearings, Congress and the public will be provided the administration's strategy for dealing with the problems of rural America and working toward the objectives Congress has established.

STATEMENT OF HON. CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the Subcommittee: Thank you for this opportunity to discuss operations of Farmers Home Administration's Rural Development Insurance Fund, rural development strategy and other matters. I have a brief opening statement which, with your permission, I will submit for the record, and will then attempt to answer any questions you may have.

The major ingredients of our rural development strategy are these:

1. Less dependence on the federal government as a supplier of credit, reflecting Administration goals to limit the growth of federal outlays, a major component of the President's economic recovery program.

2. Greater emphasis on aid to more-remote rural communities and individuals and to those in greatest need, an effort well underway, through rewriting of our regulations governing priorities for rural development loans and grants. (These regulation changes would not preclude aid to areas which are technically rural but are adjacent to urban areas; they would rather re-direct loan and grant-making priorities to truly rural areas.)

3. Greater reliance on private lending markets, which we expect to contribute to rural development needs in much larger measure than at present as the President's economic recovery program succeeds in lowering interest rates.

4. Close cooperation with, and support of, state, county, local and substate planning districts to assure maximum support for state and local rural development plans. (The Department's Office of Rural Development Policy is now developing a strategy to provide extensive technical information and other expertise to help local governments increase their rural development management capability.)

Now let me briefly discuss how these general policy guidelines affect the four specific component programs of the Rural Development Insurance Fund: water and waste, community facilities, business and industry loan guarantees and guaranteed alcohol production facility loans.

In two of the program areas, business and industry and alcohol production, the Administration has proposed to Congress discontinuance in fiscal 1983, both to help meet the goals of the economic recovery program and because we believe that sufficient private capital for economically-sound projects will become available.

Both programs utilize loan guarantees. The guarantee substantially reduces the lender's risk. We believe that rural lenders can utilize their correspondent banks to provide funding for credit-worthy businesses rather than using the secondary market provisions of the business and industry loan program. In addition, state development authorities and public-body-sponsored industrial revenue bonds can be utilized.

For this year, fiscal 1982, FmHA has $300 million in business and industry guarantee authority. As of July 7, 1982, FmHA had obligated 20 loans, with subsequent obligations of 8, for a total amount of $32,919,950 in guarantees.

As of July 14, our last reporting date, we have approved one alcohol production facility and have a number of projects in the pipeline.

In water and waste loans and grants, as of July 14, 1982, we have obligated $329,679,000 out of our $506,000,000 available and will have obligated the entire authorization by the end of the fiscal year.

In community facility loans, obligations through July 14 totaled $56,394,000 out of $130 million authorized.

In anticipation of some reduction in loan and grant funds for fiscal 1983, we are working closely with private lenders and others to involve them in joint funding in rural areas. The FmHA state and district offices are serving as liaison between rural project officials and commercial lenders.

Such a goal cannot be accomplished overnight. But we are hopeful of repeating FmHA's success in involving private lenders in farm operating loans, an effort that began with Secretary Block and Under Secretary Naylor's meeting with the private sector and the Farm Credit System early this year. This effort, and subsequent follow-up, succeeded. In the first eight months of fiscal 1982, the private sector participated in 21,628 FmHA operating loans, compared to 5,800 for all of the last fiscal year. And dollar participation was up from $91.6 million to an estimated $432 million during the same two periods.

As we said earlier, we are also shifting emphasis within community facilities to those communities most in need and to those facilities most essential to human health and safety. To further aid these communities, on July 9 of this year, we published a new intermediate interest rate half way between the lowest community facility rate, or poverty line rate, and the market rate. This new rate is for projects "in the middle" that qualify for neither the poverty line rate nor the market rate. The purpose is to assist these communities in providing facilities for their residents at an affordable price.

Thank you for this opportunity. I will attempt to answer any questions you may have.

STATEMENT OF NORMAN DEWEAVER, CENTER FOR COMMUNITY CHANGE

Thank you, Mr. Chairman. My name is Norman DeWeaver. I am associated with the Center for Community Change, a nonprofit national technical assistance organization. My comments today are based on my experiences in working with individual rural community groups, both in helping them solve local community problems and in helping them bring their views to the formulation of federal policy.

It is appropriate that the Committee's hearings on rural development fall just one month short of the tenth anniversary of the enactment of the Rural Development Act of 1972. The 1972 Act was a milestone in the definition of the federal role in the development of rural communities. What has happened to this role over these ten years is instructive, particularly since this role is being radically redefined by recent events.

The 1972 Act was a Congressional response to the federalism initiative of an earlier President. The President asked that federal funds for rural development be handed over to the states—in the form of a block grant—to do what they wished in rural communities. The 1972 Act did the opposite. It expanded existing programs, authorized several new ones, especially in the area of nonfarm economic and community development, and mandated the development of a coherent federal policy process under the leadership of the Secretary of Agriculture.

Most of the programs in the 1972 Act eventually got started. One community program, the water and waste disposal grant program, actually reached its 1972-authorized funding level in the late 1970's.

In a way, the policy process never did get started. At the end of 1979 President Carter set out a rural development policy. However, the stimulus for that policy statement was more a desire to coordinate the administration of existing federal programs than to suggest any new or comprehensive initiatives.

Again, in 1980, Congress mandated the development of a coherent federal rural development policy. The 1980 Rural Development Policy Act, which you, Senator Leahy, pressed upon a somewhat reluctant Administration, called for a policy process, a periodic strategy statement and an implementation approach to meeting the nation's rural community development needs.

Again, the Executive Branch has balked. The first strategy statement, produced six months ago, appears to be an embarrassment to its authors. The policy directions section of that document bears little relationship to the statement's own analysis of needs. None of the policy directions speak to problems related to disparities between metropolitan and non-metro income levels or availability of services. Certainly none speak to the unusually severe problems of rural residents that are black, Hispanic or Indian. None of the policy directions address the very great difference among rural areas in terms of relative need and recent growth trends.

The fact is that budget policy has driven rural development policy, despite the implied requirement to the contrary in the Rural Development Policy Act of 1980. The abject surrender of the rural development policy process to OMB-dictated budget priorities is illustrated by the one-line statement in the January 1982 strategy statement that, "The Administration's fiscal year 1983 budget was not completed in time to be analyzed for this report."

The impact of recent budget policy on the rural development programs in or associated with the Rural Development Insurance Fund is major. Interest rates for loan program money have increased two-and-a-half times, from 5 percent to roughly 12 percent. Operating levels for both loan and grant programs have been reduced by one-half to two-thirds from their late 1970's highs. Smaller programs, such as the rural development grant program and the Section 111 planning program, have disappeared.

The problem of coordinating Farmers Home community programs with those in other agencies is resolving itself in an unanticipated way. As the other programs vanish, there is little left to coordinate with. The newest problem of this type will be triggered by the recent changes in EPA's wastewater treatment works construction grant program. Those changes can be expected to put EPA assistance out of reach for many smaller rural communities, increasing the demand for the reduced assistance available in Farmers Home.

Budgetary policy is rewriting the very mission of the Farmers Home Administration as set forth in the 1972 Act. The 1972 Act created a role for FmHA in rural nonfarm economic development and expanded its community facilities activities. In his fiscal year 1983 budget documents, the President again requested the termination of FmHA's program tools in nonfarm economic development and dictated further reductions in the agency's community facilities mission. Rural communities can find much more federal grant assistance in HUD programs than they can in those of Farmers Home.

In the absence of the coherent rural development policy mandated by law, we should at least look at whether the most basic human needs are being met in rural areas. What rural people and which rural communities are without the essentials of food, shelter and any productive way to earn a living? In what cost-effective ways can the federal government use its unique ability to apportion resources that will speak to the most basic rural needs?

Certainly, the availability and affordability of potable water and sanitary waste disposal must rank as two of the most basic of human needs. It is in rural areas that those needs remain to be met.

The lack of these basic facilities is directly correlated with the lack of ability to pay for them. The underlying justification for the water and waste disposal grant and loan programs in the Farmers Home Administration is that this assistance can augment a rural community's ability to pay.

When the President proposed a drastic reduction in the amount of FmHA water-waste disposal program assistance in February of 1981, he simultaneously called for concentrating the remaining assistance on communities with the most severe needs. He said, ". . . eligibility for the water and waste loan program will be limited to those communities that are too small to participate in the bond market or are too poor to afford a water system without grant assistance."

Congress has supported these priorities through the legislative history it attached to the 1981 Reconciliation Act, the 1981 Farm Bill, and most recently, through Report language attached to the Senate and House bills reauthorizing various Farmers Home programs.

The national network of field organizations working in low income communities enthusiastically supports these priorities.

Judged by its actions, Farmers Home does not support these priorities. The record looks like this:

Loan assistance to the poorest rural communities—those with median incomes below the poverty level—totaled only 15 percent of the water and waste loan funds obligated in the first nine months of fiscal year 1982.

Grant assistance—which is supposed to be targeted to the poorest communities—was very seldom offered to projects in poverty level communities. Only 23 percent of the grant funds obligated in the first six months of fiscal year 1982 ($8.1 million) was used in tandem with 5 percent loans.

To this day the agency has not published regulations establishing a project selection system that will insure that funds are targeted to the smallest and poorest rural communities. Congress first asked for such a system in the Conference Committee Report on the 1981 Reconciliation Act, adopted a full year ago.

What is happening is very clear when viewed from a field perspective. Grant funds are being used to subsidize the market interest rate on projects in moderate to higher income communities. Lower income communities have been pushed out of the program.

These results are directly attributable to the way in which longstanding FmHA rules and attitudes intersect with the mathematics of project feasibility.

The changes in regulations which the agency proposed at the end of March will add to the tangle of existing rules without reducing the barriers confronting small, low income communities. The "intermediate" interest rate of 8⅜ percent adopted several weeks ago is still too high to make projects in lower income communities feasible. Grant assistance remains oriented to writing down the higher interest rates on loan projects. Were FmHA to actually implement the provision in its March 30th proposed regulations limiting all grant assistance to communities at or below 85 percent of the statewide non-metro median family income, the contradictions built into its other rules would result in the agency either not spending a substantial proportion of its grant funds or in closing down most of its loan program.

The only way to cut through this tangle and implement the policy which the President and the Congress have set forth to concentrate available assistance on communities too small and too poor to afford essential facilities is to mandate, by law, explicit rules governing the selection of projects, and the calculation of interest rates and amount of grant support to be provided to individual projects. This Committee has already approved one feature of this package of reforms—a rule providing for fixed interest rates based on community income level—in the bill it reported reauthorizing various FmHA programs (S. 2314). The additional elements, needed to insure that the intended effect of the interest rate change is not frustrated by existing FmHA rules, are contained in the companion bill reported out of the House Agriculture Committee (H.R. 5831).

Reorienting one pair of programs—those supporting water and waste disposal facilities construction—in one agency—Farmers Home—is no substitute for the comprehensive, coherent rural development policy repeatedly mandated by the Congress.

However, it would be one meaningful way of underscoring a basic element of any such policy. It would define a federal role in the provision of two essential community services, domestic water supply and the sanitary disposal of waste, and would do this in a way that places the limited assistance available within the reach of those rural communities that need it the most.

Thank you. I will be happy to respond to any questions you may have.

CENTER FOR COMMUNITY CHANGE,
Washington, D.C., July 28, 1982.

Hon. PATRICK J. LEAHY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LEAHY: I am pleased to respond to the questions which you raised at yesterday's hearings of the Rural Development Subcommittee concerning the operation of the Farmers Home Administration's water and waste disposal programs.

Your first question concerns whether the present inequities in the program will be solved by the introduction of the "intermediate" interest rate provided in the July 9, 1982 change in the water and waste disposal loan program regulations.

The answer is no. Figures for the state of Vermont show why the answer is no. Under the new FmHA interest rate structure, 5 percent loan funds would continue to be restricted to communities where the documented median family income is below the poverty line. There are no communities of that type in Vermont. There are apparently only 37 out of 251 communities that are likely to qualify for the new FmHA "intermediate" interest rate, which is over 8 percent. This means that almost all the towns in the state will continue to be charged the highest or "market" interest rate in the new FmHA three-tiered structure. (By way of contrast, I understand that the interest rate structure in the amendment to S. 2314 which you sponsored would potentially make 23 Vermont communities eligible for the 5 percent interest rate and 208 communities eligible for the 7 percent rate.)

The underlying issue is whether the loan assistance which Farmers Home provides will make it financially feasible for low to moderate income communities to build or rehabilitate the facilities they need. The FmHA "intermediate" interest rate is too high and the communities eligible for it too few and too relatively poor to make very many projects feasible under current construction costs.

As Senator Andrews illustrated by using figures from the state of North Dakota, FmHA has circumvented its own interest rates by providing substantial grant funding to write down the "market" interest rate to a much lower effective interest rate. FmHA has done this to enable relatively higher income communities to benefit from the program, while effectively denying grant assistance to the communities with the least ability to pay.

These factors are why the provisions in the Farmers Home reauthorization bill eventually adopted by the Congress later this session must include the amendment which you sponsored providing for a 5 percent, 7 percent and market interest rate structure for communities below 80 percent, between 80 percent and 100 percent and above 100 percent of the statewide non-metro median family income respectively. That is also why the reauthorization bill must contain a formula governing the use of grant funds similar to the one adopted in Section 1 of the House bill (H.R. 5831) as reported by the House Agriculture Committee. Unless the Congress controls the calculation of the grant rate as well as the interest rate on individual water and waste projects, FmHA will continue to subsidize the interest rate in projects serving higher income communities by awarding such projects substantial amounts of grant funds.

Your second question relates to the likelihood that the current Farmers Home emphasis on participation of non-federal lenders in water and waste disposal projects will benefit smaller, poorer rural areas.

No, non-federal lenders are not likely to become a significant source of capital for water and waste projects in low income rural communities. In one sense, to have FmHA pushing its state offices to develop projects jointly financed with non-federal lenders is to turn the traditional definition of the agency's mission on its head. It is to say that the agency should encourage projects that can attract other lenders and reject projects that cannot obtain credit elsewhere.

Farmers Home has distributed an analysis of its recent record on joint financing of water and waste and community facility projects. The analysis shows that only a little over 3 percent of the projects funded since the beginning of fiscal year 1979 have had the participation of non-federal lenders. The analysis further shows that non-federal lenders strongly prefer projects sponsored by public agencies with taxing authority, a very strong financial position and secured by general obligation bonds. Almost by definition, this excludes projects from the smallest, poorest communities which often have utility systems that are mutual water companies with very limited financial resources and a revenue base derived entirely from the sale of water to limited income rural customers.

Thank you for your interest and support of a strong Farmers Home program dedicated to meeting the most pressing of rural needs—providing reliable, safe and affordable water and sanitary waste disposal services to rural residents and communities with the least ability to pay.

Sincerely,

NORMAN C. DEWEAVER.

STATEMENT OF HAROLD O. WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. Chairman, my name is Harold O. Wilson and I am Executive Director of the Housing Assistance Council, (HAC). The Housing Assistance Council, a national nonprofit housing organization, assists in developing housing for low income rural families by providing technical assistance and seed money loans to rural development organizations. The Council has operated for over ten years, and never have we seen such sweeping changes in government policies that will adversely impact our nation's low income families.

From the outset, let me restate the longstanding, firm support and belief of the Housing Assistance Council that FmHA is the best vehicle through which to assist our nation's rural citizens. We contend that any rural housing problems can be addressed through legislation and reform of the existing, and successful, FmHA mechanism.

The FmHA system has produced effectively. During the first 32 years of its rural housing mission, the agency loaned or granted over $35 billion. It has done so despite historic understaffing and a low, constantly decreasing ratio of staff time to money loaned. This bears witness to FmHA's industry, productivity, and commitment.

We are here today to discuss the relationship of housing to rural development. While to some rural development has more limited parameters, we see it encompassing the whole social and economic spectrum, including population distribution, economic distribution and environmental quality. Issues of employment opportunities, local governmental capacity, support for the poor and stewardship of water and other natural resources demand a national perspective. If rural families, regardless of income or location, are to have an opportunity for a healthy and productive life, the interdependence of these issues and the need for a strong federal presence must be recognized.

One area where all these issues come together most immediately is the basic requirement for shelter in a healthy family and community environment.

The role of Farmers Home Administration (FmHA) in national rural development policy must also be addressed. We believe the diversified nature of FmHA's rural credit programs, and the Rural Development Act, evidence the intent of Congress that this agency exercise a leadership role. FmHA housing programs are important development tools which contribute to balanced growth and employment in rural areas. The agency's lending role places government in partnership with private enterprise to ensure the achievement of rural goals.

As you know FmHA was created to provide credit to rural communities. The agency is still needed to overcome glaring deficiencies in infrastructure, capital for farm operations, adequate housing, and sanitary water and wastewater facilities. As a lender of last resort, FmHA's credit is supplementary to private sector activity, servicing a low-income population far removed from conventional lenders.

Our primary concern is the fate and effectiveness of federal housing programs, principally those of FmHA. The options we face reflect an ominous theme familiar to all of us: simply stated, the Federal government is getting out of the housing assistance business. The HUD budget testifies to this attitude with the proposed elimination of the fiscal year 1982 pipeline and virtual termination of all assisted housing for fiscal year 1983, except for a minimal number of vouchers and a small rehab block grant program. The Administration's FmHA 1983 budget numbers are almost as devastating, recommending a 67 percent reduction from fiscal year 1982. While the Administration desires to limit FmHA programs to those most in need, it proposed to eliminate the subsidies necessary to serve this populace. HAC believes adoption of the Administration's fiscal year 1983 levels would be tantamount to phasing out FmHA housing programs.

A second approach to rural housing is in the Senate "Housing and Community Development Amendments of 1982." S. 2607. Title V of that bill would: (1) block grant FmHA subsidy funds to states; and (2) retain a FmHA direct and insured housing loan program at a market rate of interest. Since most of the FmHA eligible population cannot afford today's market interest rates, this would signal the death knell of FmHA rural housing programs. FmHA would retain a self-help grant program, but even this would be inoperable absent long-term subsidized mortgages for owner-builders.

We strongly oppose the block grant approach for the following additional reasons:

State capability and desire to handle rural housing programs is not uniform, and in many cases insufficient;

States are faced with a variety of block grant proposals at an unprecedented rate; their ability to properly absorb them is not known;

Without interest subsidy, FmHA cannot properly service its existing subsidized Section 502 portfolio, and may suffer heavy losses;

30 percent of income payment requirements will cause home ownership borrowers to pay 40 percent of income of more for shelter;

A rehabilitation priority will seriously curb rural new home construction, with disasterous consequences for the many rural communities with severe housing shortages;

Annual subsidy funding will be difficult to match with private, long term mortgage lending;

The mandated use of HUD minimum property standards would negate cost and fuel efficient FmHA thermal standards; and

Above all, the proposed elimination of FmHA as a significant national housing presence will have a long-term adverse impact on low-income people.

The third rural housing approach is a bi-partisan floor Amendment (S. Amendment 1906) sponsored by Thad Cochran, Alan Cranston, and 35 other Senators. It would amend the Senate Housing Bill (S. 2607) to preserve FmHA, reauthorize rural housing programs essentially at 1982 levels, mandate needed changes in housing rehabilitation and targeting, and remove the block grant provisions. HAC supports this approach of preserving FmHA as an effective housing and rural development agency.

Proven performance and capacity are important. In an era of unprecedented inflation, the modest aspect of the FmHA housing program has stood the nation in good stead. There are limits to government resources, and limiting the size of FmHA financed units has kept costs below that of the lenders. The FmHA thermal standards, for example, not only protects homowners, but also reduces the operating subsidy in the rental housing programs.

RURAL HOUSING POLICY ISSUES

HAC enthusiatically supports the FmHA rural delivery system. Some of the weaknesses cited by critics are the result of legislation, as well as administrative policies and regulations which do inhibit the well being of rural residents. Before discussing true shortcomings of FmHA housing programs and policy, we note the following examples of unfair criticism:

Critics cite FmHA's marked increase in eligible low and moderate income limits. These higher levels were mandated in the Housing and Community Development Amendments of 1979;

Proponents of the rural housing block grant point to a sharp decline, since 1971, in the percentage of funds going to areas with populations of 2,500 or less. The 1974 Housing Act made eligible non SMSA communities between 10,000 and 20,000 population; and

Detractors fault FmHA inability to serve low income people, yet the average gross income of the Agency's single family (Sec. 502) loan recipients in 1981 was $10,683, a figure unapproached by all other homeownership mortgage programs.

There are a number of issues which we urge Congress to address. Several which directly affect the ability of FmHA to conduct a balanced rural housing and rural development effort are:

Non-use of funds.—FmHA's fiscal year 1982 spending record is less than desirable. With less than 1 quarter remaining in the fiscal year, more than 50 percent of available rural housing program funds has not been obligated. Some of the causes for this situation would suggest impoundment:

(1) A preoccupation with delinquency has created a servicing policy precluding proper attention to processing loan applications. This fixation had some basis when the delinquency rate approached 30 percent. However, it overlooked depressed economic conditions and the fact that FmHA borrowers are precisely those unable to get financing elsewhere. FmHA's attention has reduced delinquency to 24.1 percent,

19.9 percent after discounting borrowers with pending foreclosures, moratorium agreements, current rescheduled agreements and pending court actions.

Delinquency is a manifestation of severe and depressed rural economic conditions. FmFA borrowers are low on the economic ladder, with little or no reserves, and are most likely to be furloughed from employment. FmHA has used delinquency reduction to deny 19 states, Puerto Rico, and the Virgin Islands access to Sec. 502 and pooled funds. In some states, offices with fairly high delinquency are not authorized to approve loans. Such edicts are made without regard to unemployment, or the living conditions of eligible applicants. Delinquency and the loan servicing campaign has provided the Administration with a perfect tool with which to hold down loan making to levels more in line with its proposed fiscal year 1983 budget, even though Congress has not approved those levels.

The Housing Assistance Council believes that balancing servicing activities with loan making is very important, and that delinquency rates must be considered. Therefore, we cannot understand why the Administration failed to request funds for the FmHA Counseling Program (Sec. 525). Exhibit G describes the status of rural housing accounts. The write-off category is most important. From its inception through September 30, 1981 only 0.14 percent of FmHA loan principal had been written off. This rate compares favorably to that of any public or private lender.

(2) Limiting rental subsidies to existing projects has made many, if not most, Section 525 and farm labor housing applications infeasible.

(3) Extremes in inactivity. The Ohio FmHA, for example, was formerly an active rental housing office. Through June 10, 1982, it had not obligated any of the $31.8 million allocated for that State's use.

(4) Employment has been held well under ceiling, while field offices cite lack of staff as a reason for not expeditiously processing applications. As of May 29, FmHA was 496 positions under the OMB authorized ceiling.

(5) Terminating and/or not hiring temporary employees who normally handle excess farm loan applications despite the apparent availability of salary and expense funds. Since farm applications were given second priority after loan servicing, the effect has been devastating to housing application processing in many county offices.

Targeting deficiencies.—The targeting of FmHA rural housing programs to those most needy (incomes below 50 percent of area median and/or living in substandard housing) is limited by the amount and scope of subsidy available. The Section 502 homeownership program remains totally untargeted. This is inexcuseable in light of a 1979 amendment that prescribes 30 percent of funds to those below 50 percent of area median income, and a 1980 amendment establishing priority for those living in substandard housing. Unfortunately, FmHA last year removed weighted priorities previously incorporated in Sec. 502 regulations, though never activated.

FmHA programs should serve those most in need. This can best be achieved through changes to the existing program such as Section 504(a) of the Cochran/Cranston Bill.

Housing rehabilitation.—While the single family homeownership (Sec. 502) program allows rehabilitation, and the Section 504 program is used totally for repair and rehabilitation, FmHA maintains an almost fervently negative policy toward using Section 515 rural rental funds for rehabilitation. This is counterproductive, since rehabilitating decaying or declining structures is as important to the vitality of small communities as it is to urban centers. The agency discourages rehabilitation by requiring rehabbed units to meet new construction minimum property standards; the result is usually not cost effective. Legislation requiring a reasonable policy for rehabilitating rental housing through Section 515 is urgently needed. The Cochran/Cranston Amendment forbids FmHA from using rules which prohibit or discourage economical rehabilitation under that program.

Rental assistance.—All agree that FmHA must serve the most needy, who can only be assisted through the use of subsidy. Households with incomes below $10,000 can neither afford to own nor rent without financial aid. The Sections 515 and 514/516 rental programs, in combination with rental assistance, do have the ability to serve those most in need. However, FmHA has used rental assistance almost exclusively for tenants in previously financed projects, and the Administration's 1983 budget would essentially limit the subsidy to renewals. HAC believes that 5 year contracts should be utilized in fiscal year 1983 with a minimum funding level equal to that for fiscal year 1982. This plus establishment of a minimum level for 1983 financed projects would ensure at least 16,000 units for those most in need. Such a policy would reestablish Section 515 as a viable rural development mechanism, and also is incorporated in the Cochran/Cranston bill.

It costs money to house the poor, but often less than people are led to believe. The average FmHA subsidized rental unit receives $1,113 in interest credit and $1,319 rental assistance for a subsidy total of $2,432 per year. This figure is favorable in light of present living costs. Attached is a chart showing costs incurred by families with incomes of $8,000 and $10,000.

Anti-consumer policy changes.—Over the past year, FmHA has implemented or proposed rule changes which adversely affect low income applicants, borrowers and tenants. The policy appears to ease the workload for FmHA employees (or borrowers in the case of rental projects) at the expense of those for whom the programs were legislated. HAC urges Congress to review the direction in which FmHA is steering the rural housing programs, and to take appropriate remedial action. A few such examples are:

(1) The recently proposed priority ranking system for Section 515 applications will: (a) provide more incentive for building projects close to urban centers; (b) eliminate ranking points for projects with rental assistance or Section 8 subsidies; and (c) dilute the points for communities with lower per capita incomes.

(2) Proposed Section 502 rules contain no ranking system to effect targeting.

(3) The general appeal procedure no longer permits national office review of county offices decisions.

(4) A proposed tenant appeal procedure change restricts due process by removing tenant hearing rights. It also eliminates the right to appeal an eviction, forcing tenants to rely solely on instituting formal legal actions in state courts. HAC fears that many tenants will be removed before any opportunity for a hearing.

(5) A proposed multi-family rule will force landlords to include as income the in-kind support tenants receive from others. While vague, it could adversely affect tenant living conditions by counteracting the benefits of other programs.

(6) Another proposed rule would define public assistance income to include the maximum level allowable for shelter and utilities, whether or not received. Tenants will be in the middle of a federal-state jurisdictional dispute, and as a result may pay excessive portions of income for shelter.

RURAL HOUSING FUNDING LEVELS FOR FISCAL YEAR 1983

The Housing Assistance Council recognizes the need for fiscal restraint, and therefore supports the recommendations of the National Rural Housing Coalition to fund FmHA rural housing programs at fiscal year 1982 levels. While this means fewer units in 1983, it maintains a commitment while Congress reexamines program effectiveness, and domestic social and economic needs. Over 1.9 million substandard housing units remain in rural America, most occupied by households with less than $8,000 yearly income.

Attached is a chart comparing FmHA funding levels over the past several years. Below are the levels HAC supports for fiscal year 1983.

HAC FISCAL YEAR 1983 RECOMMENDATION

[Dollars in millions]

	1982 appropriation	1983 recommendations
502 RH subsidized	$2,300.0	$2,300
502 RH unsubsidized	430.0	400
504 Low-income repair loans	24.0	24
504 Low-income repair grants	15.0	24
514 Farm labor housing loans	25.6	25
516 Farm labor housing grants	22.0	[1] 25
515 Rural rental subsidized	940.0	940
523 Self-help T.A. grants	5.2	20
523 Self-help land loans	2.0	2
524 Site loans	5.0	5
525 T.S.A. grants	0	5
Rental assistance contracts	398.0	400
Total	4,166.8	4,170

[1] Reflects deferral of $10,728 million in fiscal year 1982 to fiscal year 1983.

No group of American workers earns less than farm laborers, who face economic and social deprivation on a day to day, year to year basis. While the modest FmHA Farm Labor Housing program is no substitute for improved income, its FY '83 production (1090 in the Administration budget, 1303 in the National Rural Housing Coalition proposal) is still important. FmHA has published final seasonal housing standards for the program which, together with rental assistance, will improve its ability to serve migrant workers. We urge continued support for this program.

The Housing Assistance Council opposes attempts to end the FmHA Self-Help Housing Program and supports its continuation in the Cochran/Cranston bill. Self-Help Housing provides important services to rural America. It reduces income requirements for the homeownership program by producing housing at a cost $9,200 less than the average newly constructed unit. It therefore requires less interest credit than regular single family (Sec. 502) loans. The per unit cost of Section 523 Technical Assistance Grants is offset by the reduction in interest credit subsidy in approximately 5 years.

CONCLUSION

As the Committee is well aware, "subsidy" is an unpopular word in Washington when referring to benefits for low income Americans. When they are for others, however, subsidies are called incentives, and appear quite acceptable. Perhaps what low income Americans need then are incentives, not subsidies.

Mr. Chairman, though some say precious few things are worth preserving, we believe some ideals must continue. The first thing worth preserving is the principle that there is nothing wrong with helping the poor. There is nothing wrong with the Federal Government assisting individuals unable to provide for themselves.

A structure that provides decent affordable housing is also worth preserving and worth paying for. These rural housing programs have been forged by the wisdom of Congress over a thirty year period. It would be unconscionable to terminate them. Finally, if the rural poor are to receive the necessary assistance, it is vital that a mechanism be preserved to deliver housing services to the remote rural areas of our country. The present FmHA rural delivery network has been developing for over half a century. It works. To terminate it, to pass it, or to do anything to weaken it would be a tragedy.

Exhibit A

FARMERS HOME ADMINISTRATION
Loans and Grants by Program -- All-Time Total
through September 30, 1981

	Number of Loans or Grants	Dollar Amount
FARMER PROGRAMS:		
Farm Operating Loans	2,279,491	$ 11,242,531,206
Farm Ownership Loans	367,078	8,769,894,290
Recreation Loans (Individual)	454	19,816,130
Emergency Loans	1,132,823	18,397,849,414
Economic Emergency Loans	121,000	6,628,618,280
Grazing Association Loans	605	129,419,696
Soil and Water Loans (Individual)	39,991	431,684,752
Irrigation and Drainage Loans	606	30,927,909
Indian Land Acquisition Loans	73	82,764,400
Farmer Programs, Total	3,942,121	$ 45,733,506,077
RURAL HOUSING PROGRAMS:		
Individual Housing Loans	1,639,309	$ 28,040,244,622
Very Low Income Repair Grants	39,269	87,942,687
Rural Rental Housing Loans	14,137	5,046,180,400
Rural Asst. Program:		
Rental Housing (76,530 Units)	-	1,516,992,434
Labor Housing (3,748 Units)	-	50,778,507
Farm Labor Housing Loans	1,395	154,416,060
Farm Labor Housing Grants	188	129,873,560
Site Loans	165	22,328,090
Self-Help Housing Grants	348	55,810,831
Rural Housing Supervisory Assistance Grants	57	5,000,000
Housing Programs, Total	1,694,868	$ 35,109,567,191
COMMUNITY PROGRAMS:		
Water and Waste Disposal Loans	23,719	$ 7,221,694,844
Water and Waste Disposal Grants	11,265	2,096,723,336
Community Facility Loans	3,926	1,696,800,720
Industrial Development Grants	1,367	83,549,279
Watershed and Flood Prevention Loans	480	171,502,524
Resource Conservation and Development Loans	279	26,790,409
Rural Development Planning Grants (ADA)	605	19,000,000
Development Grants Other than FmHA	1,792	281,352,391
Community Programs, Total	43,433	$ 11,597,413,503
BUSINESS & INDUSTRY PROGRAMS:		
Guaranteed Business/Industrial Loans	6,804	$ 5,282,793,339
Business/Industry Programs, Total	6,804	$ 5,282,793,339
DISCONTINUED PROGRAMS:		
Emergency Livestock Loans	7,738	$ 1,045,660,130
State Corporation Farm Operating Loans	185,904	158,964,394
Rural Rehabilitation Loans	3,031,331	1,015,825,965
Economic Opportunity Loans (indiv.)	64,660	109,394,912
Economic Opportunity Loans (assn.)	1,476	21,107,481
*Recreation Association Loans	1,035	110,510,460
Rural Renewal Loans	56	6,550,300
Water Facility Loans (indiv.)	18,296	29,695,363
Water/Sewer Comprehensive Planning Grants	1,834	22,293,387
Bureau of Reclamation, Soil and Water Loans	283	4,935,550
Land Conservation and Development Loans	274	267,900
Special Impact Grants	2	2,700,000
State Corporation Farm Ownership Loans, Agricultural Credit Corporation Loans, Resettlement Projects, Water Utilization and Construction Loans	(number not available)	89,800,000
Total Discontinued	3,312,889	$ 2,617,705,842
GRAND TOTALS --	9,000,115	$100,340,985,952

* Recreation Assn. Loans included in Community Facility Loans since 1974.

Source: Brief History of FmHA

Exhibit B

Dollars Loaned and Grants Administered (Cumulative)

	Farm (Thousand)	Housing (Thousand)	Community (Thousand)	Farm Housing Community (Thousand)
1935	676			676
1936	76,964			76,964
1937	152,466			152,466
1938	232,770			232,770
1939	376,552			376,552
1940	511,576		2	511,578
1941	677,655		56	677,711
1942	854,019		134	854,153
1943	988,046		149	988,195
1944	1,082,514		149	1,082,663
1945	1,167,454		232	1,167,686
1946	1,295,580		381	1,295,961
1947	1,445,061		501	1,445,562
1948	1,528,128		661	1,528,789
1949	1,646,632		754	1,647,386
1950	1,809,284	18,161	1,013	1,828,457
1951	1,961,699	42,253	1,563	2,005,515
1952	2,152,421	63,408	1,961	2,217,789
1953	2,360,918	82,765	2,800	2,446,484
1954	2,636,422	98,833	3,676	2,738,932
1955	2,928,478	98,833	4,863	3,032,174
1956	3,231,423	102,554	5,835	3,339,812
1957	3,565,721	123,854	6,542	3,696,108
1958	3,861,819	156,911	7,540	4,026,270
1959	4,159,454	217,585	10,859	4,387,899
1960	4,426,742	258,321	11,707	4,696,771
1961	4,746,439	328,662	17,353	5,092,454
1962	5,273,854	425,160	30,856	5,729,870
1963	5,864,145	612,900	49,010	6,526,054
1964	6,428,571	750,243	95,034	7,273,848
1965	7,026,754	885,206	161,965	8,073,925
1966	7,692,062	1,153,755	316,793	9,162,610
1967	8,402,594	1,596,875	554,130	10,553,598
1968	9,040,063	2,089,911	781,816	11,911,789
1969	9,740,957	2,602,000	1,000,711	13,343,669
1970	10,383,687	3,395,835	1,203,896	14,983,417
1971	11,079,895	4,794,932	1,522,906	17,397,733
1972	11,898,367	6,413,709	1,875,464	20,187,539
1973	13,330,329	8,277,018	2,335,085	23,942,433
1974	14,353,648	10,070,394	3,119,913	27,543,955
1975	16,362,179	12,315,274	4,352,191	33,029,645
1976	18,187,039	14,840,862	5,412,773	38,440,675
1976 + TQ	18,561,883	15,751,596	5,907,085	40,220,565
1977	20,994,914	18,897,401	7,583,784	47,476,099
1978	25,990,776	22,658,749	9,937,676	58,587,201
1979	33,696,244	26,945,340	12,669,182	73,310,766
1980	40,045,519	31,166,003	15,065,002	86,276,524
1981	48,119,358	35,109,567	17,022,261	100,251,186

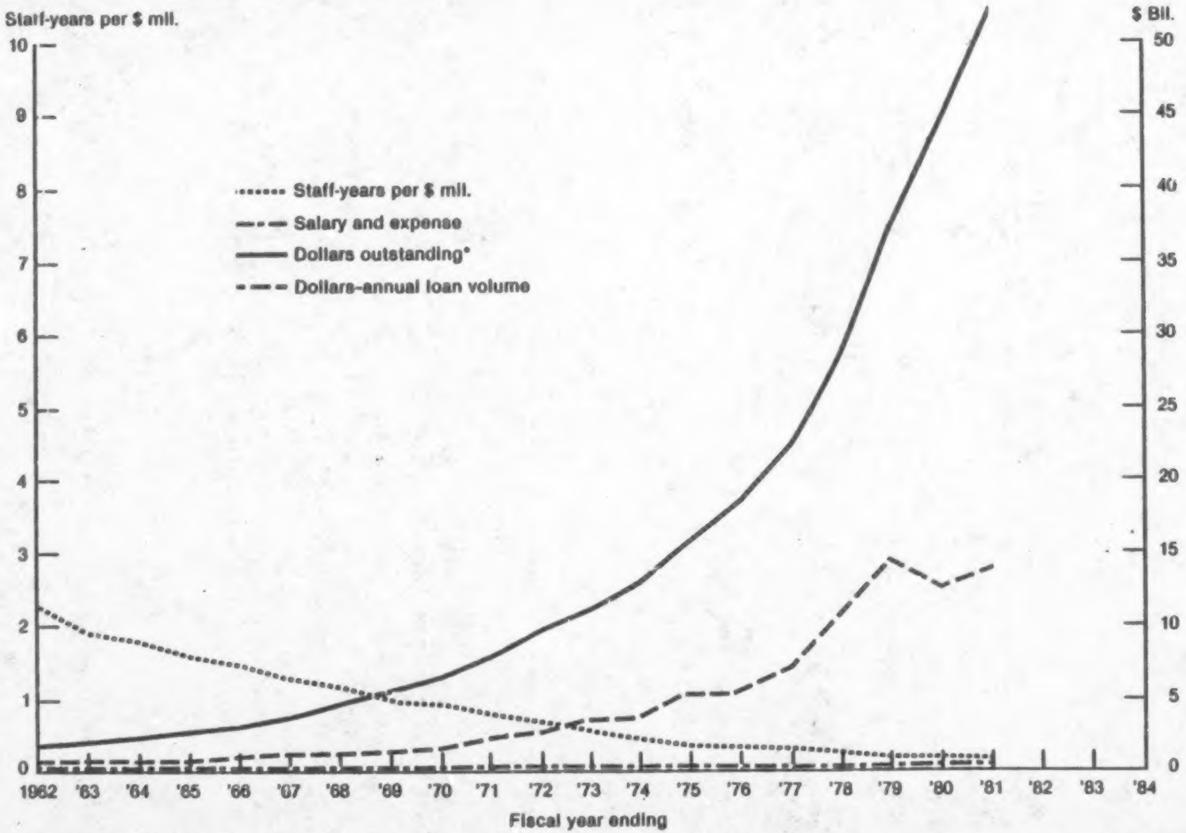
NOTE: Amounts will not equal due to rounding.

Source: Brief History of FmHA

Exhibit C

(Chart 1)

Loan and Grant Volume and Staff Productivity



*Does not include "Guaranteed Loans."

Source: Brief History of FmHA

Exhibit D

FARMERS HOME ADMINISTRATION

RURAL HOUSING OBLIGATIONS FY 1982
USE THROUGH FIRST NINE MONTHS

6/30/82

(Dollars in Thousands)

PROGRAM	APPROPRIATION	75% APPROPRIATION	OBLIGATED	PERCENTAGE OBLIGATED
502 Subsidized	$ 2,300,000	$ 1,725,000	$ 1,422,330	61.8%
502 Un-subsidized	430,000	322,500	113,975	26.5%
504 Loans	24,000	18,000	6,584	27.4%
504 Grants	17,257 (a)	12,943	8,009	46.4%
514 FLH Loans	25,600	19,200	4,541	17.7%
516 FLH Grants	31,863 (b)	23,897	1,721	5.4% (c)
515 RRH	940,000	705,000	261,511	27.8%
523 T.A.	4,773 (a)	3,580	3,126	65.5%
523 Site	1,146	860	260	22.7%
524 Site	5,000	3,750	0	0
TOTALS:	$ 3,779,639	$ 2,834,730	$ 1,822,057	48.2%
RENTAL ASSISTANCE	$ 398,000	$ 298,500	$ 272,592	68.5% (d) (e)

(a) Includes carryover funds from FY 1981

(b) Includes carryover from FY 1981, but:

(1) Administration calculates balance at 32,728, and

(2) On Feb. 10, 1982 filed for a deferral of 10,728, leaving a balance available of 22,000 75% of 22,000 = 16,500

(c) Based on $22,000 available, percentage = 7.8%

(d) Percentage of funds obligated after 9 months = 68.5%

(e) Percentage R.A. units obligated after 9 months = 74.2%

Source: FmHA Report Code 205

EXHIBIT E

ESTIMATED LIVING COSTS(a) AND DOLLARS AVAILABLE FOR SHELTER: FAMILY OF FOUR WITH $8,000 AND $10,000 ANNUAL ADJUSTED INCOMES

ITEMS	$8,000 INCOME	$10,000 INCOME
1. Gross Income	$ 10,063	$ 11,574
2. Taxes	1,321	2,048
3. Food	3,975	3,975
4. Transportation	1,368	1,368
5. Other (Non Shelter Costs)	1,584	1,584
6. Total Non Shelter Costs)	8,248	8,975
7. Net Available for Shelter	$ 1,815	$ 2,599

It is obvious that families with incomes at or below this level need assistance, and/or must make radical adjustments to average living standards. Consider the carrying costs of the average FmHA Sec. 502 loan for an existing dewlling made in FY'81 ($33,173)

Mortgage at 1% -	$ 1,182
Taxes and Insurance	452
Utilities and Maintenance	1,414
TOTAL	$ 3,048

(a) SOURCE: FmHA

Exhibit F
Page 1 of 2

FmHA RURAL HOUSING PROGRAMS

Dollar Levels Fiscal Years 1979-1983

(Dollars in Millions)

	1979 Actual	1980 Actual	1981 Actual	1982 Estimated	1983 Budget	1983 HAC Proposal
502 RH Subsidized	$2,007	$2,220	$2,328	$2,300	$ 900	$2,300
502 RH Unsubsidized	859	604	256	430	0	400
502 RH Guaranteed	11.9	18.9	5.7	0	0	0
504 Low Income Repair Loans	14.7	21.9	17.9	24	24	24
504 Low Income Repair Grants	19	24	22.7	15	12.5	24
514 Farm Labor Housing Loans	36.3	24.6	18.5	25.6	19	25
516 Farm Labor Housing Grants (a)	32.4	22.3	10.5	22	23.2	25
515 Rural Rental Subsidized	822	825	842.5	940	200	940
515 Rural Rental Unsubsidized	48	56	22.3	0	0	0
523 Self-Help T.A. Grants	5.6	6.2	12.4	5.2	0	20
523 Self-Help Land Loans	1.7	0.4	0.5	2	0	2
524 Site Loans	3	0.8	0.5	5	2	5
525 T.S.A. Grants	2.5	1.5	1	0	0	5
Rental Assistance Contracts	423	393	403	398	185	400
TOTAL	$4,286.1	$4,218.6	$3,941.5	$4,166.8	$1,365.7	$4,170

(a) Reflects deferral of $10,728 million in FY'82 to FY'83

Exhibit F
Page 2 of 2

FmHA RURAL HOUSING UNIT ESTIMATES

FY 1979-1983

	1979	1980	1981	1982	BUDGET 1983	HAC Proposal 1983
502 RH Subsidized	64,264	62,739	61,544	55,800	20,100	61,133
502 RH Unsubsidized	29,136	18,918	7,990	11,700	0	14,233
502 RH Guaranteed	374	590	172	0	0	0
504 Low Income Repair Loans	5,213	6,934	5,296	6,440	5,900	6,351
504 Low Income Repair Grants	6,842	8,589	7,687	5,651	3,515	6,479
514/516 Farm Labor Housing(a)	2,575	1,490	890	1,340	1,090	1,303
515 Rural Rental Housing	38,650	33,100	29,500	29,400	5,740	27,434
TOTAL	147,054	132,360	113,079	110,331	36,345	116,933
RENTAL ASSISTANCE UNITS(b)	22,623	20,000	17,655	14,280	17,560	37,960

NOTE: 502 loans and 504 loans and grants are counted as units. 514/516 and 514 units are based on FmHA data, and calculations from budget estimates and actual expenditures.

(a) Reflects deferral of $10,728 million dollars in FY 1982 to FY 1983

(b) Administration proposes all 1983 budgets for renewals and units in existing projects, HAC's proposal includes 16,610 units for new projects (priority for FLH with 1000 units)

Exhibit G

FmHA SECTION 502, 504, AND 515 RURAL HOUSING PROGRAMS, A STATISTICAL HISTORY OF SUCCESS

The FmHA rural housing programs have been alternately praised as successful and condemned as having uncontrolled delinquency. The Housing Assistance Council has examined FmHA accounts and concluded that the agency has compiled a remarkable record (HAC doubts that any other agency, public or private, has achieved any better record), particularly so in light of its legislated mission. We have developed data in this report which authenticates our assumption.

In looking at the FmHA statistics it is most important to also know who they serve.

1. FmHA is the lender of last resort. Its borrowers are those unable to obtain private credit or finance housing with their own resources.
2. Until recently, the income limits for the Section 502 and 515 programs (Section 504 is for very low income applicants) were $11,200 (low income) and $15,600 (moderate income). The average adjusted income for households receiving home ownership loans was $9,601 in FY 1981.
3. FmHA borrowers are situated toward the low end of the economic ladder. They have little reserve capacity and are quickly affected by economic downturns. As a group they are probably among the first to be severed from employment when recessions occur.
4. The FmHA 502 program constructs modest housing. The average new house financed in 1981 contained 1051 sq. ft. of living area and cost $37,222.

I. FmHA SECTION 502, 504 AND 515 HOUSING ACCOUNT

ACTIVITY DURING FISCAL YEAR 1981

ITEMS	502 & 504 (a)	515
1. Number of Borrowers 9/30/80	1,394,644	7,633
2. Amount of Outstanding 9/30/81	$17,728,454,985	$3,000,357,864
FY 1982		
3. Number of Loans Made	93,040	1,466
4. Dollars Loaned	$ 2,601,476,640	$ 166,094,182
5. Account Transactions		
Total cash collections	$ 1,761,697,678	$ 166,094,182
(interest collected)	962,874,429	115,558,699
Judgements (prin + int.)	58,673	
Writeoffs (prin + int.)	1,976,214	10,913
Other (b) (prin + ints.)	189,156,862	182,287
6. Total Delinquency as of 9/30/81 (c)		
Number of accounts delinquent	253,986	373
Percentage of accounts delinquent	25.6% (d)	5%
Dollars delinquent (overdue)	$ 200,457,000	$ 9,073,000
Percentage of dollars delinquent	1.04%	2.2%
7. 502 Delinquency as of 9/30/81		
Number of accounts delinquent	249,353	
Percentage of accounts delinquent	26%	
Dollars delinquent	$ 199,809,000	
Percentage of dollars delinquent	1.04%	
8. 504 Delinquency as of 9/30/81		
Number of accounts delinquent	4,633	
Percentage of accounts delinquent	15.6%	
Dollars delinquent	$ 648,000	
Percentage of dollars delinquent	1%	
9. Number of Accounts 9/30/81	1,461,492	8,487
10. Amount Outstanding 9/30/81	$ 19,631,386,688	$3,753,952,478

(a) FmHA report code 752 (account transactions) combines Section 502 and 504

(b) Other transactions include: transfer and assumptions, acquired property (inventory) and default payments to lenders (FmHA has a very small guaranteed 502 loan portfolio)

(c) FmHA reports delinquency in two reports -- report codes 580 and 616. The latter yields a higher delinquency and is reflected in no. 6 above. The former shows time in delinquency status and does not include as delinquency borrowers with additional partial payment agreements on schedule or those under moratorium. 502 data from the 580 reports is included later in this analysis.

(d) The 27% figure used by the agency only includes monthly payment accounts.

II. Commulative Write-Off Data (Since inception)

a. Precent of principal actually written off

502 and 504 - 0.14%

515 - 0.004%

b. Percent of interest actually written off

Principal: 502 and 504 - 0.04%

515 - 0.018%

c. Ratio of cash repayments to write offs

Principal:	502	191.7 to 1
	515	1122.3 to 1
Interest:	502	452.7 to 1
	515	4849.9 to 1

The above data is a write off comparison to the total cumulative principal and interest advanced since inception.

III. Section 502 Delinquency by time - 9/30/81

Monthly Payment Borrowers (Report code 581)

1.	Number of active borrowers	902,692
2.	Number Delinquent	210,263
3.	Percent Delinquent	23.3%
4.	Number with one payment delinquent	79,103
5.	Percent of active borrowers	8.8%
6.	Number with two payments delinquent	40,396
7.	Percent of active borrowers	4.5%
8.	Number with three payments delinquent	22,496
9.	Percent of active borrowers	2.5%
10.	Number delinquent more than three payments	67,817
11.	Percent of active borrowers	7.5%

Annual Payment Borrowers: (Report code 583)

1.	Number of active borrowers	68,575
2.	Number of delinquent	6,727
3.	Percent delinquent	9.8%
4.	Percent of active borrowers up to 1 year delinquent	6.8%
5.	Percent of active borrowers up to 1 year delinquent	1.5%
6.	Percent of active borrowers up to 2-3 year delinquent	0.6%
7.	Percent of active borrowers over 3 years delinquent	0.9%

[The following questions from the committee and Mr. Wilson's answers thereto follow:]

Question 1. We hear complaints that the FmHA rental programs (Secs. 515 and 514/516) are being underutilized because of lack of subsidy. How would you propose to correct this problem in the absence of any increase in appropriations for this program?

Answer. The current FmHA rental assistance program is funded at $398,000,000. It is obligated via 10,710—5 year and 3,570 20 year contracts; all of which are used for previously financed (existing) projects. We recommend conversion to sole use of 5 year contracts. FmHA budget division estimates the average 5 year contract will run $10,535 for fiscal year 1983 projects (the current average for the total program is $1319 per year as contrasted to the $2107 budget estimate). 20 year contracts are estimated at $85,744 per unit.

The switch to 5 year units will produce 37,779 at $10,535 per unit. This is an increase of 23,499 units over fiscal year 1982. A major portion of the FY-83 units must be set-aside for renewals. Additional units must be available to FmHA to counter tenant hardship in existing projects. The balance can be used for new projects. We recommend:

Renewals in existing projects	17,560
Other existing projects	3,798
New projects (fiscal year 1983 loans)	16,421
Total	37,779

HAC believes that history mandates that FmHA be required to use a minimum of $173,000,000 of the total appropriation for new projects. This will enable rental assistance for 57 percent of the estimated 28,737 units of Sec. 515 and 514/516 farm labor housing which will be produced in fiscal year 1983 at fiscal year 1982 dollar levels.

Our approach is a compromise from an 80-percent level of unit subsidy, which is more representative of truly serving those most in need. HAC believes that its compromise recommendation for 6569 fewer rental assistance units saves $69.2 million from the budget and is made in the spirit of fiscal constraint.

Question 2. How do you view housing in terms of an overall rural development policy?

Answer. Housing is an integral part of rural development. We normally tend to view rural development as comprising infrastructure, employment, health care, education etc.; but it is actually the sum of all economic and social components and efforts in a rural area.

Housing is a very important component for many reasons, a number of which are listed below:

(1) Poor housing can and does detract from the physical appearance of a community;

(2) A concentration of poor housing can reduce the level of vitality of a community;

(3) A lack of decent housing will have a negative effect on location of commercial enterprises;

(4) Poor housing contributes to the apathy of it residents. This apathy can have a multiplier effect on educational achievement, work motivation etc., which ultimately produces long range economic and social problems for the community; and

(5) A community where everyone lives in decent housing is more apt to be stable in other respects.

Rural development efforts have been limited both by a lack of funding and local understanding of need and benefit. Most communities will support senior citizens housing, but few want subsidized family housing. A result of the lack of a balanced approach to "low-income" housing is the spread of physical deterioration which, as previously noted, ultimately contributes to sapping the vitality of the community.

In rural areas the needs and well-being of farmers, nonfarm residents, businesses, and local government are closely intertwined. The neglect of one component will produce economic and social problems for all others.

In rural areas, availability of housing is often a land tenure issue with broad and complex rural development implications. Recent studies have documented an alarming array of land retention problems which affect low-income and minority rural residents in particular. Clouded titles, rising property taxes due to rural "gentrification, and the decline in employment and the agricultural economy are causing a high degree of land loss and displacement among rural residents with limited resources.

The connection between land tenure problems and policy at every level of government has been detailed in a report of the U.S. Commission on Civil Rights The Decline of Black Farming in America, (February, 1982). Among its findings is the fact that, despite their disproportionate need, blacks received only 2.5 percent of the total dollar amount loaned through FmHA's farm credit program in 1981. The report concludes that FmHA has generally "failed to advance, and in some cases may have hindered the efforts of small farm operators to remain a viable force in agriculture." It should be pointed out that such criticism has meaning to the extent that FmHA is a potentially tremendous resource for low-income rural residents, and that the agency's critical value underscores its recent shortcomings, however severe, in performance.

Clearly, then, land tenure conditions are a housing issue. Once uprooted from their economic support system, those displaced from family homesteads will swell the rolls of the indigent urban and rural population in need of housing and other services. The cost to the public will increase, either directly through subsidized programs, or indirectly through the impacts upon unemployment, health, crime, education, and other problems.

[The following material was submitted by Mr. Wilson:]

HOUSING ASSISTANCE COUNCIL INC.,
Washington, D.C., July 30, 1982

Mr. JAMES C. ANDERSON,
Director, Budget Division,
Farmers Home Administration, South Building, USDA.

DEAR MR. ANDERSON: The Housing Assistance Council (HAC) respectfully requests certain information, relative to FmHA staffing, under the Freedom of Information Act.

HAC previously obtained a May 29, 1982 report, by states on ceilings and staffing levels for permanent full-time positions. We request a copy of similar reports for: (1) Permanent part-time position; and (2) Temporary positions.

One column of the report we have listed the FmHA approved permanent ceiling. Is this ceiling established by FmHA, USDA, OMB or the Appropriations Act? Is the 9774 total equal to the ceiling provided in the Appropriations Act?

Please also provide us with your latest figures on expenditures for personnel (staffing). We would like to compare them to appropriation levels.

We would appreciate this information at your earliest convenience.

Thank you for your consideration.

Sincerely,

HAROLD O. WILSON,
Executive Director

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C.

Hon. CHARLES W. SHUMAN,
Administrator, Farmers Home Administration, Department of Agriculture, Washington, D.C.

DEAR MR. SHUMAN: This is in response to your June 16 letter requesting clarification of the status of the 4,000 Section 8 units which were proposed for use with the FmHA Section 515 program under the Memorandum of Understanding.

The current apportionment to the Department does not make any provision for Section 8 assistance to the 4,000 FmHA units proposed in the Congressional conference report of July 1981. Furthermore, it is not anticipated that there will be any provision for such assistance in the Urgent Supplemental Appropriations Act for 1982 now before Congress. In fact, due to the very high cost of new construction, further production of new subsidized housing units under both the Public Housing and the Section 8 housing programs is expected to be minimal, except for projects under the Section 202 Program for the Elderly of Handicapped. Consequently, I cannot be encouraging about the prospects for Section 8 assistance to FmHA units this fiscal year.

I regret that I cannot provide a more favorable response to your inquiry.

Very truly yours,

PHILIP ABRAMS,
General Deputy Assistant Secretary,
Deputy Federal Housing Commissioner.

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Washington, D.C., July 23, 1982.

Subject: Section 8/515 Units for Fiscal Year 1982.
To: All State Directors, FmHA.

This will reply to numerous requests for clarification of the status of the Section 8 units which were proposed to be used with the FmHA Section 515 program under the Memorandum of Understanding with the Department of Housing and Urban Development (HUD).

HUD has officially advised FmHA that the current HUD apportionment does not make any provision for Section 8 assistance to the 4,000 FmHA units proposed in the Congressional conference report of July 1981. Furthermore, it is not anticipated that there will be any provision for such assistance in the Urgent Supplemental Appropriations Act for 1982 now before Congress. In fact, due to the very high cost of new construction, further production of new subsidized housing units under both the Public Housing and the Section 8 housing programs is expected to be minimal, except for projects under the Section 202 Program for the Elderly or Handicapped. Consequently, we are not encouraged about the prospects for Section 8 assistance to FmHA units this fiscal year.

Therefore, all Rural Rental Housing (RRH) projects must continue to be authorized on the basis of being feasible on only Interest Credit Plan II.

CHARLES W. SHUMAN,
Administrator.

STATEMENT OF ALICEANN WOHLBRUCK, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

INTRODUCTION

Mr. Chairman, members of the Subcommittee on Rural Development, I am Aliceann Wohlbruck, executive director of the National Association of Development Organizations. I am pleased to submit these brief comments concerning the economic and community development programs of the Farmers Home Administration and other programs that affect rural development activities.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Since its establishment in 1967, the National Association of Development Organizations has promoted economic development in rural areas of the nation.

These local development efforts have been made possible through financial contributions from federal, state and local governments in partnership with private enterprise. Federal programs such as the Economic Development Administration (EDA), the Appalachian Regional Commission (ARC), and the Farmers Home Administration (FmHA) have been instrumental in enhancing the quality of life in economically distressed regions.

The multi-county economic development districts, which NADO represents, have assisted local governments in these areas by coordinating development efforts and providing technical expertise. Since passage of the Public Works and Economic Development Act in 1965, 286 districts have been designated. These contain over 1,500 counties and hundreds of towns and cities.

Districts promote long-term economic development by creating a better climate for private sector investment. The direct benefits derived from the development strategies proposed by districts include reductions in the unemployment rates, strengthening of local tax bases and an increase in personal income.

The districts' approach to job-creation has two basic elements: A partnership with private sector to develop long-term commercial and industrial growth in distressed areas; and a minimum of control from Washington and maximum local participation so that community needs are met.

Another important function of local development districts continues to be assisting local governments in attracting private sector investment. At the district level, this is achieved by developing a strategy where local communities establish or maintain adequate facilities. Several recent studies have shown the important relationship between private sector location decison and infrastructure conditions. Districts help local governments to finance and plan the construction and maintenance of vital facilities such as roads, bridges, sewers and waste treatment plants.

RURAL DEVELOPMENT PROGRAM FUNCTIONS

As you can see our members have a long record of commitment to programs such as those assisted by the Farmers Home Administration, the Economic Development Administration, and the Appalachian Regional Commission. NADO members are troubled by the drastic cuts and administrative changes in these programs which provide assistance for community economic and business development programs in rural areas. We feel the current budget reduces federal spending in a way which greatly favors metropolitan areas. Needy rural communities will be less likely to receive federal aid for development than large urban centers. These programs are closely linked with private sector investment. Termination and reductions in funding will effectively decrease the rate of growth in rural areas.

Federal programs to stimulate development in rural areas have been significantly cut in the past three years. FmHA programs have been cut from 45 to 72 percent. EDA and ARC have been reduced nearly 60 percent. Urban development programs, on the other land, have been less severely affected. The Community Development Block Grant Program (CDBG) will be reduced less than one percent and the Urban Development Action (UDAG) program is cut by 35 percent. Big cities will still be able to obtain development assistance from the Department of Housing and Urban Development. Similar programs for rural communities, funded by the FmHA and others, experience a disproportionate share of program reductions.

The Environmental Protection Agency (EPA) sewage treatment construction program is also being changed to favor large metropolitan areas. Eligibility will be changed at the end of fiscal 1983 so that collectors will no longer be eligible for federal aid. Aid will be limited to treatment plants and major interceptors, except under a small amount of discretionary funds available for states.

Overall, federal aid for rural infrastructure development is being greatly reduced by federal cutbacks.

RURAL NEEDS, INFRASTRUCTURE DEVELOPMENT AND PRIVATE SECTOR INVESTMENT

Some rural areas are growing while others continue to decline. The 1980 decennial census shows that population in rural regions rose by 15.4 percent between 1970 and 1980. The increase has placed new burdens and pressures on local governments. The demand for services is up, and the need for new jobs and economic diversification is evident. A U.S. Department of Agriculture study showed that many small farmers are able to keep their farms because of outside jobs. The availability of jobs, according to the study, is the most serious economic problem for small farmers. The attached story from the Washington Post about the effects of the recession in the rural south makes this point clearly, "The only areas that seem to enjoy some immunity from hard times boast diversified industry . . ." Despite growth in certain areas, there is a lack of employment and opportunity in many rural regions. Consider these facts:

Over-specialization by economic sector.—Rural areas are often dependent upon one or two economic activities for the majority of employment. Dominant activities vary from one area to the next. Mining, agriculture, forestry, fishing and tourism are the usual major employers. Example: In 1979, 16.1 percent of South Dakotans were employed in agriculture, while the national average is 3.8 percent.

Isolation.—Rural areas are often physically and culturally isolated from major markets. Examples include the fact that rural products may have to travel several hundred miles to reach their markets and the fact that rural manufacturing firms may not be as aware of changes in consumer habits as firms closer to major consuming areas.

Transportaton.—Many rural areas lack the air and rail facilities to attract and hold business. Adequate transportation facilities are not only absent in many rural areas, but others like secondary highways and bridges are poorly maintained due to a lack of funds.

Unemployed are exported.—Unemployment figures for rural areas are often misleading because the unemployed usually leave after a period of unsuccessful job searching.

Small community tax base make debt financing difficult.—Rural communities often lack the ability to build public facilities to attract business on their own. The small tax base of many rural communities prohibits any expansion of existing utilities without outside help.

Historic demand shows greater need in rural areas for basic facilities aid.—Rural areas have historically sought different types of federal assistance than urban areas. In 1978, non-metropolitan areas received $49 more per capita in community facilities assistance, $40 more per capita in business and industrial development, and $21 more in natural resources outlays than urban areas. Urban areas received $224 more per capita in defense contracts, $66 more per capita in housing, and $33 per capita more in transportation. (U.S. Dept. of Agriculture, 1980.)

Poverty indicators higher for rural areas.—According to White House Rural Development Background Paper "Social and Economic Trends in Rural America":

(1) Incidence of poverty is significantly higher in rural areas than in urban areas (35 percent of the nation's poor are rural);

(2) Rural people experience poorer health than urban people. Also, there is a shortage of health services and medical care in rural areas;

(3) Incidence of substandard housing continues to be more than three times as high in rural areas as it is in urban areas;

(4) Per capita income in rural area lags behind the national average for per capita income; and

(5) Sixty-three percent of rural Americans (39 million people) drink unsafe water (National Statistical Assessment of Rural Water Conditions, 1982).

Out-migration leaves older generation behind in rural areas.—According to Bureau of Census State and Metropolitan area Data Book:

(1) Rural areas between 1970–79 such as the North Central region experienced a decrease in net migration (-1 percent) while the more urbanized areas has significant increases due to migration (+9.5 percent); and

(2) Rural, midwestern states have a larger percentage of their population over age 65 (12.6 percent) than the national average (11 percent) and also greater than traditional retirement areas in the more urbanized southwestern areas (9.9 percent).

Less educational attainment in rural areas.—Census reports show:

(1) Rural areas have fewer vocational education centers per capita than do more urbanized and industrialized areas. This results in fewer skilled workers for the rural areas; and

(2) Rural areas have a smaller percentage of residents completing high school and going on to college.

Rural areas lack capital markets.—A February, 1981 study done for the U.S. Department of Commerce, "An Empirical Analysis of Unmet Demand in Domestic Capital Markets in five U.S. Regions," reported:

(1) Unmet capital demand is highest in rural areas; (2) Small firms have the most difficulty obtaining capital; and (3) Independent firms are at a disadvantage in capital markets

The needs of rural areas are unique. Jobs are needed, but few firms will locate in areas where the most basic facilities are inadequate or not in place.

NADO's member organizations have assisted local government in obtaining federal aid for the establishment of water and waste disposal systems; the laying and paving of roads; and the building of public facilities. These are not luxurious or extravagant expenditures. Proper infrastructure development and maintenance is vitally important and linked to private sector investment. Communities which have proper infrastructure and public facilities have a better chance of attracting private business and industry.

Public investment in all public works projects has decreased in recent years. Between 1965 and 1980 such investments fell by 30 percent. The need for such investment is clear and the private sector has not shown a willingness to take over the government's role in supplying these services.

Farmers Home programs have been "lifesavers" and job creators in many small towns across the country. In North Dakota the town of Zeelands (population 253) water system became inoperable several years ago. With the aid of an $80,000 FmHA loan and grant a new well was dug and water system provided before winter halted all construction. The local development district worked with the town and FmHA to solve this emegency and help the citizens before a crisis occurred. Without FmHA funds a town this small could not have afforded to replace the system.

Our members now say that recent FmHA income standards have been set so low that almost no communities are eligible. We hope that Senator Leahy's amendment on the farm bill will help solve this problem.

Another program that has helped stimulate private investment in rural areas is the B&I program. Because of the difficulty in obtaining capital from small town banks, this program has been very beneficial. In Cooperstown, North Dakota a $32,000 B&I loan helped a small sunflower distributor and processor create 6–8 new jobs in the town's small industrial park. These are small numbers, but nonetheless important to the survival of small towns.

The FmHA Community Facility Loans and Water and Waste Disposal Loans and Grants have saved and created jobs in rural regions. According to FmHA, 30,855 jobs were created or saved in fiscal 1981 alone.

EFFORTS MADE WITH USDA, ORDP

The National Association of Development Organizations is working with the Department of Agriculture to give them a better understanding of the problems of rural governments and we have found them receptive to our concerns. NADO and other rural government groups recently co-sponsored a Rural Governments Symposium with USDA to identify the challenges faced by small governments in this year of dramatic change in our federal system.

We are particularly pleased with the establishment of the Office of Rural Development Policy in USDA which is working with us to be sure that local governments have a meaningful role in formulating the first national rural development strategy. We hope they will have the resources to systematically review federal programs to identify rural-urban inequities and any other problems in rural government programs.

CONCLUSION

NADO members believe the development programs of the Farmers Home Administration have proved their effectiveness in creating jobs in the private sector and in helping promote economic growth in rural areas. We urge that rural infrastructure and business development needs not be asked to take more than their fair share of budget reductions.

FUNDING COMPARISON—FEDERAL DEVELOPMENT PROGRAMS

[Dollar amounts in millions]

Program	Fiscal year			Percent change
	1980	1981	1982–83	
EDA	$587	$436.7	$253.5	−57
ARC	357	285.0	165.0	−54
FmHA:				
Water and waste loans	700	700.0	375.0	−46
Water and waste grants	326	300.0	125.0	−62
Community facility loans	240	260.0	130.0	−46
Business and industry loans	1,073	1,000.0	300.0	−72
CDBG	3,861	3,694.0	3,500.0	−.09
UDAG	675	675.0	435.0	−35

[Reprinted from the New York Times, June 19, 1982]

NATIONAL RURAL WATER STUDY CAUTIONS ON CONTAMINANTS

(By Peter Khiss)

Sixty-three percent of rural Americans, nearly 39 million people, drink water that could be unsafe, according to a Congressionally mandated study released yesterday.

The first "National Statistical Assessment of Rural Water Conditions" reported that nearly 29 percent of rural homes had enough bacteria in their water to be a potential health hazard. It also reported the following problems with elements: One-quarter had unsatisfactory mercury levels, 17 percent had too much lead, 17 percent too much cadimium and 14 percent too much selenium under Federal standards for community water supplies.

The standards are not legally binding for small, individually owned water systems and often have a substantial safety margin.

The five-year, $5 million study was carried out by Cornell University researchers for the Federal Environmental Protection Agency after the Safe Drinking Water Act was passed in 1974. In mandating the study, Congress held that, unlike the water that comes from large, regulated systems, almost nothing was known about rural drinking water.

MOST WATER ACCEPTABLE

The report did not make recommendations, go into trends or generally attempt to assess causes. The Cornell team reported water in most rural households was acceptable by most indicators but that only one-third had no contamination.

Joe D. Francis, the principal investigator, a professor of rural sociology at the New York State College of Agriculture and Life Sciences at Cornell, said that even though levels of particular contaminants were higher than expected, "we did not witness corresponding widespread water-related medical problems."

"What is now a somewhat serious problem may get worse because of the easing of Federal environmental regulations," he added, referring to Reagan Administration policy.

Bruce Brower, research associate, said the long-term effects of low levels of toxic chemicals were not known, adding, "There is no way to correlate general health and illnesses with drinking water except in outbreaks." He said that he felt further studies on trends and causes should be undertaken.

The study was based on water of 2,654 households, in line with census samplings, gathered in 1978 and 1979. Federal, university and other laboratories analyzed them for 43 substances.

Virtually none showed detectable radioactivity or residues of pesticides and herbicides. Dr. Brower noted that the latter had chemical formulas difficult to identify.

The report estimated that 500,000 homes might have bacterial levels in their drinking water greater than levels permitted for public beaches.

The greatest problems were with small water systems serving from two to 14 households, where they were organally set up for single households, Dr. Brower said. As the national economy has worsened, he explained, these well connections were made to save on the cost of digging new wells.

More than 40 percent of the homes served by individual and intermediate size systems had unacceptable counts of bacterial coliforms. Only 15 percent served by community systems did so. Coliform counts, indicating disease potential, result-from plant decomposition or human and animal feces.

The report offered data only by regions. Seventy-five percent of rural homes in the West reported at least one contaminant over allowable levels; 65 percent in the North Central and Southern regions and about half in the Northeast. Central states, which had the greatest number and proportion of homes with five or more substances above Federal "maximum contaminant levels" requiring action on community supplies.

Inquiries can be made through Victor J. Kimm, deputy assistant E.P.A administrator for water, in Washington.

[Reprinted from the Washington Post, May 8, 1982]

AS JOBLESS RATE CLIMBS, FULL FORCE OF RECESSION BEARS DOWN ON SOUTH

(By Art Harris)

DOVER, TENN., May 7.—For 18 years, Orlene Hooper worked at the Ely & Walker factory here, turning out blue jeans on her sewing machine. Then the factory shut down, throwing Hooper and almost 300 others out of work. Now Hooper is down to her last unemployment check and doesn't know where to find the rent money for her trailer. The blue jean factory was the only game in town.

"You go places and ask for a job and people look at you like you're nuts," said Hooper, 41, who has two children and an unemployed husband. She is not alone. Four out of 10 workers are without jobs here in rural Stewart County.

With unemployment reaching 9.4 percent nationwide in April, the highest level since World War II, the recession has come full force to the South.

Once, in recent years, believed to be a land of plentiful jobs and boom times, the South has fallen victim to recession like the rest of the nation. Alabama steel and North Carolina textiles have been hard hit, and Georgia, Florida and Louisiana remain the only southern states with single-digit unemployment.

"In the early '70s, it was felt the South could never have a recession," said Donald Ratajczak, a Georgia State University economist. ". . . [But] so many of our manufacturing facilities are old and inefficient. And we've got a lot of housing-related industry: forest products, appliance makers, carpet firms. A housing slump sends a ripple all the way through the inventory chain, enough to knock off some of our manufacturers."

For years, these firms flocked to the South for cheap labor, hospitable local government and no unions. But these days such historic buffers haven't been enough to protect small towns like Dover.

More than a century ago, Dover surrendered to Gen. Ulysses S. Grant. Last summer it was defeated again, by recession, fashion trends and cheap foreign denim stitched in Hong Kong by workers earning a fraction of an American hourly wage.

"We just didn't have the business," said Lloyd Hancock, the Memphis-based Ely & Walker's executive vice president. "It got to the point where we couldn't do anything but close" last summer. "It's always wrenching to do something like that, but it was our last resort."

Such business failures have had a ripple effect here on the banks of the Cumberland River. The Dover Cafe has closed down on the town square. A factory outlet nailed a "Closed for Remodeling" sign on the door, but no one expects it to reopen. The Chevrolet dealer has moved out.

Another textile firm, Oshkosh B'Gosh, moved into the vacated factory. But only 75 workers were rehired, not enough to take up the slack. There is word of more layoffs down the road in nearby towns in a state where more than 12 percent are out of work, and the Rev. Bill Reding reports that his outreach funds for the hard-up are almost gone.

And yet, pockets of prosperity still bolster the myth of the booming South. A dusty crossroad like Twin City, Ga., enjoys good times alongside devastated communities like Dover. Both are virtually identical one-company textile towns of 1,400.

Twin City sewing machine operator Pat Williamson prospers stitching military dress shirts for $5 an hour at a subsidiary of Creighton Inc. Her husband earns $8 an hour as a telephone repairman.

They grill sirloin steaks at least once a week and take two children to McDonalds. Others, too, are doing well in a town whose banker-mayor, F. Dickson Durden, puts the local unemployment rate at 4 percent, 5 points below the national average.

Still, Williamson says she fears that her good fortune may be fragile. She has relatives outside Dover who haven't worked for two years after being laid off by an appliance maker. "They used to live better than we do . . . ," she reflected over a stack of green Army shirts. "It makes you realize that your life would be a disaster without a job you depend on."

At first glance, Dover and Twin City are more kin than not. Both are small, rural way stations on the way to someplace else. Both prospered in the past as one-company towns, tiny links in the industrial backbone of the South: textiles. But towns like Dover are becoming more and more common.

The only areas that enjoy some immunity from hard times boast diversified industry, like Tattnal County, Ga., with a 5.1 percent unemployment rate in March. Here, surviving companies have absorbed layoffs from others and a state prison and nearby Army base provide cushions.

"You're not going to make $10 to $20 an hour, but there's plenty of jobs for people who want to get out and work," said Wilton Rhoden, 43, managing editor of The Tattnal Journal. "We have 20 to 50 help wanted ads a week from farmers and textile companies who want people to work."

Twin City's factory president, Howard Quarles, 64, said he's looking for about a dozen machine operators, and Bill Rogers, pipe-puffing editor of the local Emanuel County weekly, The Blade, reports advertising revenues up 14 percent, mostly from new retail stores.

Twin City's factory produces military dress shirts for post exchanges around the country. Such military sales account for more than half of Creighton's $25 million in annual revenues, according to president Albert Cohen.

Cohen has protected his business from recession by making some shirts oveseas, some stateside, keeping prices competitive, and mixing U.S. customers with sales abroad. There are regulation Army maternity blouses on the drawing boards, for example, and racks of dress blues destined for Saudi Arabia's navy.

Sales remain strong, he said, though back orders have slipped from six months to two. Still, there are no layoffs expected at his Twin City factory, where pocket presser Ella Hobb, 45, has been "depending on this job for 10 years. It helped me graduate my children from high school. It bought their books and clothes. Without it, you couldn't amount to nothing."

But in a rural outback like Dover, when layoffs hit there is no one to take up the slack except the state unemployment office in the courthouse basement.

"My boss tells me to suggest that they move out of the county, but you just can't get them to move," said local unemployment office director Patsy Brigham. "For one thing, they don't have any money to move, but more important, this is home."

The telephone rings. A laid-off plant worker wants state aid to train as a cosmetologist. "I'm sorry, Rita," she said, "but we've already got three in cosmetology. Now if you get a note from a beautician who will hire you, we might be able to work something out."

"Every day more and more people are applying for assistance," said Nancy Skurlock, Stewart County human services director. "They ask us for help, but we have no help to give."

Orlene Hooper is among hundreds of unemployed garment workers who await word on an extension of nearly depleted unemployment benefits. And her husband, Charles, was among 200 let go from $3.50 an hour county public service jobs. He's been hunting work for months.

"I've offered to work for below minimum wage, mopping floors, cleaning up, anything," said the Army veteran. "I can't figure it out. It's the first time in my life I haven't been able to find a job. I've picked up a little work mowing grass, but that won't last the summer."

Many Dover people are taking temporary jobs, and steeling themselves for harder times. The area cannery, which allows locals to store homegrown vegetables under a federal grant, expects a deluge come summer. Linda Reason, 29, mother of two, said she's grateful to be pushing a mop for $3.35 an hour at Dover Elementary, a public service job that lasts only a month. Still, she said, "It's better than collecting food stamps."

"If this had happened in Nashville or Atlanta, you would have had riots in the street with 40 percent unemployment," said banker Bill Tippit. "But most people here were able to fall back on Uncle Jeb's farm, shoot a deer, cut some firewood. It hurts but not as bad as a county that had to depend entirely on wages to survive."

STATEMENT OF THE RURAL GOVERNMENTS COALITION

Chairman Andrews, and distinguished members of the Senate Subcommittee on Rural Development, Oversight and Investigations of the Committee on Agriculture, the Rural Governments Coalition (RGC) appreciates this opportunity to present its views on the status of Farmer's Home Administration (FmHA) Programs and wishes to use this opportunity to solicit your continued support of a national strategy to ensure a healthy and vibrant rural America.

The Rural Governments Coalition (RGC) was founded in 1980 to provide a unified voice for rural government officials in the nation's capital. The Coalition is composed of the National Association of Towns and Townships (NATaT), the National Association of Counties (NACo), the National Association of Development Organizations (NADO), and the National Association of Regional Councils (NARC), in cooperation with the National Governors Association (NGA). We represent the more than 60 million citizens now residing in rural areas. Of that 60 million, 10 million people live in poverty. Over four million people living in rural areas have inadequate sewage disposal systems or none at all, and five million rural households drink contaminated water. There has been and continues to be a great need for the rural development grant and loan programs. The RGC believe these programs have played a significant role in providing both revenue and technical assistance in the delivery of essential public services. In many areas of the country, services such as safe drinking water, and adequate sewage disposal, cannot be provided in rapidly growing or declining rural communities based solely on inadequate and limited local revenue sources. In these areas, the sharing of revenue in the form of these rural development programs is most essential.

FISCAL YEAR 1983 BUDGET PROPOSAL

Consequently, the member organizations of the Rural Governments Coalition are deeply concerned over the impact of the proposed 1983 budget cuts on rural areas. We have supported the President's new federalism initiatives with the understanding that budget cuts would be fairly and equally distributed across all geographical and socio-economic boundaries. In our view, both fiscal year 1982 and the proposed fiscal year 1983 budgets have failed to treat rural programs, and consequently, rural America, fairly.

In a June 19, 1981 letter, the U.S. Office of Management and Budget acknowledged the inequities in the proposed funding of small versus large communities. "We realize that the impact of the Administration's proposed 1982 budget reduction falls more heavily on rural and small communities than on larger urban areas . . . ," the OMB Deputy Associate Director of Transportation, Commerce, and Housing stated (a copy of that letter is attached to our statement). While inequities in funding are recognized, little effort has been made to remedy the discrepancies in fiscal year 1983 funding proposals. In our opinion, two major reasons necessitate immediate reinstatement of at least partial funding for rural programs, particularly those used to support basic public services and infrastructure.

(1) *Excessive cuts.*—The information in the attached chart, collected from the fiscal year 1982 and the proposed fiscal year 1983 budgets, while perhaps no longer 100 percent accurate with budget deliberations now in process, does illustrate the

deep nature of the reductions in rural programs since 1981. Specific programs we are concerned about include: water and waste disposal loans and grants, community facility loans, business and industry loans, the Economic Development Administration and the Appalachian Regional Commission. As the figures illustrate, funding for rural programs would drop, on the average, 62.5 percent if the proposed 1983 budget is enacted.

(2) *Rural communities revenue raising capacity.*—The members of the Rural Governments Coalition are supportive of the President's efforts to return program responsibilities to the state and local levels, but we do question the fairness of cutting programs across the board while returning major administrative responsibilities to the states. In most states, the local authority to raise revenues is at the discretion of the state. Given present policies and the excessive budget cuts, rural communities will be faced with large reductions in funds and few options for raising additional revenues. Their ability to raise additional funds will be further hampered because the reduction in funds will be so severe.

In view of the inequities of proposed cuts, and those already experienced in funding levels of rural development programs, we recommend that Congress, at a minimum, fund the programs listed in this statement at fiscal year 1982 appropriated levels. We believe there remains a well documented need to continue rural development programs, coupled with that need, has not provided any reason which warrants inequitable treatment when compared to other federal programs.

We are not asking that rural and small communities be treated any different than larger, more urban areas. We only ask that small communities be subject to the same treatment. In our opinion, even if funds are reinstated, small communities are faced with the tremendous challenge of maintaining adequate services and meeting infrastructure needs. We are asking for a minimal level of funding to help rural governments continue the most essential services during the New Federalism period. The evidence is clear—the proposed fiscal year 1983 budget does not come close to providing that essential support.

ORGANIZATION POLICIES

Individual organizations have developed particular policies in regards to the USDA, and other federal agencies, and funding levels provided in the fiscal year 1983 budget. These individual resolutions are not necessarily the policies of the Rural Government Coalition. With the committee's permission, however, pertinent resolutions or policy statements have been attached using this document as a means to transmit this information for the committee record. Any question regarding these specific policies can be directed to the member organizations.

RURAL POLICY DEVELOPMENT

The Rural Governments Coalition (RGC) strongly actively supported the rural policy act. We have been greatly encouraged by the creation of the Office of Rural Development Policy and the establishment of the National Advisory Council on Small Community and Rural Development. Largely through Secretary Frank Naylor's leadership and the skills and efforts of Willard (Bill) Phillips, Jr., director of the Office of Rural Development Policy (ORDP), rural elected officials have a real opportunity to provide input to this policy. The ORDP is working very closely with our coalition to seek out rural elected officials views. In fact, at the National Association of Counties' (NACo) annual conference held in Baltimore, Maryland, several weeks ago, USDA/ORDP held the first of what we hope to be a series of cooperative, official USDA hearings focused specifically on rural concerns which the policy must address. Mr. Naylor chaired that hearing. Both Mr. Phillips and Mr. Oliver Nelson, A co-chair of the advisory council, served as members of the committee panel with the Under Secretary. The hearing provided an opportunity to delve into a number of important issues raised in testimony presented not only by elected county officials, but also those presented by representatives from the rural church, state community affairs, non-profit organizations and community colleges. We wish to point out that the NACo/USDA hearing was only a beginning step. The RGC has every assurance from Mr. Naylor and ORDP that USDA will continue to work with us in many cooperative efforts to not only address the policy issue, but to help in every way possible to ensure that rural America is receiving the attention and caring it so deserves. The RGC commend ORDP and Mr. Naylor's efforts. We believe that he and ORDP are truly committed to our common purpose to strengthen the rural communities across this country and we call upon the Congress to work with us and support us in that regard.

CONCLUSION

This concludes our formal statement. The Rural Government's Coalition appreciates this opportunity to present our statement for the committee record.

We applaud the committee's leadership in taking the initiative to review the rural development programs in relationship to the present fiscal environment and need. We urge your continued support of these essential development programs and seek your continued support for the policy and ORDP as we, together, work toward a national strategy to ensure equity and a quality of life for rural communities across this country.

FUNDING COMPARISON—FEDERAL DEVELOPMENT PROGRAMS

[Dollar amounts in millions]

Program	Fiscal year—				Percent change
	1980	1981	1982	1983 [1]	
Economic Development Administration	$587	$436.7	$253.5	[2] $15.4	−97
Appalachian Regional Commission	357	285.0	165.0	[2] 15.0	−95
Farmers Home Administration:					
Water and waste loans	700	700.0	375.0	300.0	−57
Water and waste grants	326	300.0	125.0	120.0	−63
Community facility loans	240	260.0	130.0	130.0	−45
Business and industry loans	1,073	1,000.0	300.0	0	−100
Community development block grants	3,861	3,694.0	3,500.0	3,500.0	−.09
Urban development action grants	675	675.0	435.0	440.0	−34

[1] Figures in this column represent the President's proposed budget.

[2] This reflects funding in the President's budget for agency closeout. Actual funding for local assistance is zero, or a 100 percent drop.

Executive Office of the President,
Office of Management and Budget,
Washington, D.C., June 19, 1981.

Mr. George H. Miller,
*Executive Director, Township Officials of Illinois,
Astoria, Ill.*

Dear Mr. Miller: The Director has asked me to respond to your letter of May 13, 1981, requesting a restudy of the budget proposals to assure that needed Federal assistance is provided to small and rural communities. We appreciate your concern about the need for equitable distribution of limited Federal resources across geographic and socio-economic boundaries. More importantly, we believe that the President's proposed budget achieves this end, while simultaneously providing for a comprehensive economic recovery program that will revitalize the Nation's economy.

Let me address your concern that under the President's proposals the northeast and midwest regions of the country are being penalized for the benefit of the south and west. The Office of Management and Budget has analyzed the regional impact of the President's Program for Economic Recovery and the budget reductions that are part of the program. The analysis shows that in all regions the economic benefits of the program far surpass the dollar reductions in outlays. Further, the analysis found that both the benefits and the outlay reductions are spread evenly among the major regions, though some individual program reductions affect one region more than another.

Regarding your point that the larger cities continue to receive proportionately greater return of the Federal dollar than the underdeveloped small and rural communities, we realize that the impact of the Administration's proposed 1982 budget reductions falls more heavily on rural and small communities than on larger urban areas. Given this impact, we have proposed a change in the entitlement/non-entitlement split for the Community Development Block Grant (CDBG) program from 75/25 to 70/30. Currently, about 25 percent (about $934 million) of CDBG funds go to non-entitlement, small cities predominantly in rural areas. For 1982, the Administration has proposed to increase this to 30 percent (about $1,082 million).

In addition, the Farmers Home Administration will continue to provide specialized assistance to the neediest rural areas. Water and sewer loans and grants will be funded at $300 million and $100 million, respectively, in 1982. Community facilities loans will be funded at $130 million in 1982. The focus of these programs will be on the poorest communities which is consistent with this agency's original role as a lender of last resort.

We realize that the loss of funding for rural areas and small communities across the country will cause some hardship and worthwhile projects may be delayed or reduced in scope. Nevertheless, we are convinced that the implementation of the President's program will result in drastically reduced inflation and significant savings of tax dollars to localities. States can expect to receive more than $54 billion from personal and corporate tax reductions under the President's program in 1982.

I have enclosed a copy of the OMB analysis of the regional impact of the President's Program for Economic Recovery.

Thank you for the benefit of your views and support of our overall budget reduction proposals.

Sincerely,

JOYCE J. WALKER,
Deputy Associate Director,
Transportation, Commerce and Housing.

Enclosure.

[From the National Association of Counties, Washington, D.C.]

RESOLUTION REAFFIRMING COUNTIES SUPPORT OF THE USDA FARMERS HOME ADMINISTRATION

Whereas, the USDA Farmer's Home Administration (FmHA) has traditionally played an important role in providing both technical and financial assistance to the nation's rural counties; and

Whereas, the FmHA staff, in both county and area offices, provide an essential link with state and federal governments, and their programs, to direct assistance to those areas of greatest need; and

Whereas, the farmers home development program, through its unique delivery system, provides crucial support for rural counties without which essential services in such areas as water/wastewater and housing, would not be possible; and

Whereas, the National Association of Counties has already gone on record in support of the FmHA development programs at fiscal year 1982 funding levels, cut by 60 percent from fiscal year 1981; Now therefore, be it

Resolved, that the National Association of Counties, on behalf of the nation's more than 2,000 rural counties, reaffirms its support for the continuation of the FmHA, its delivery system, and its development programs; and be it further

Resolved, That, rural counties call on Congress and the Administration to recognize the crucial role the FmHA plays in housing and general rural economic development and to continue these activities within that agency and through the agency's present structure.

STATEMENT OF HERBERT F. COLLINS, CHAIRMAN, COUNCIL FOR RURAL HOUSING AND DEVELOPMENT, AND WILFRED N. COOPER, PRESIDENT, RURAL BUILDERS COUNCIL OF CALIFORNIA

Mr. Chairman, we appreciate the opportunity to appear before you today to offer thoughts on the role, performance and future of the Farmers Home Administration.

We would first like to thank you and your colleagues who sponsored amendment No. 1906 to title V (rural housing provisions) of S. 2607, the Housing and Community Development Amendments of 1982. We sincerely appreciate the interest and leadership you and the other sponsors have demonstrated.

The original rural provisions of the Senate housing bill would not only destroy an effective program and make it exceedingly difficult for rural Americans to obtain adequate shelter, but also would threaten the longer-term prospects for one of the most successful Federal agencies ever conceived.

For many years the Farmers Home Administration was one of the better kept secrets in the Federal Establishment—and I imagine that many of us in this room wish that were still true. Through the years FmHA, with its unparalleled delivery system, effectively performed as intended by the Congress and drew little attention to itself.

But recently, as programs expanded and personnel number diminished, publicity about comparatively minor questions related to emergency farm loans, the business and industry loan guarantee program—which had exceeded the billion dollar level—and other issues focused unaccustomed attention on the agency.

Farmers Home will doubtlessly have some manner of problem as it continues to serve its multiple constituencies. But by any measure, FmHA continues to be effective in serving farm and small town America. And the delivery system, in a time when we are putting a renewed emphasis on localized decision-making, makes more sense than any other we are aware of. FmHA officials, from the 2,000 county offices to the national headquarters, are accessible and cooperative. This has been consistent through administrations with divergent political and management philosophies.

Housing is the primary concern of the organizations we represent, but we all understand that it is mandatory at certain times each year for FmHA to concentrate its energies on farmers preparing for production. And we consistently have tried to cooperate and assist the agency with its efforts to service a $50 billion dollar loan portfolio.

We have also reserved the privilege of encouraging our friends at Farmers Home to continue to process housing loans in a timely manner. Farm lending and loan servicing took precedent earlier in this fiscal year, but today, Mr. Chairman, we can tell you that the dramatic increase in the rate of obligation of funds for rural housing loans in the last 60 days is most impressive.

We won't, however, forego the opportunity to point out that funds remain, and express our confidence that most of those monies will be used.

Over the years FmHA has produced an impressive number of builders and developers who are qualified and prepared to produce comfortable and cost-efficient housing for lower income rural residents. It is a tribute to the agency and to the programs Congress authorized that such a large number of public and private entities continue to respond to the needs of rural Americans and the priorities of the agency at a given time.

Farmers Home has always been a lender of last resort and despite assertions to the contrary we believe that it still the case. In the area of housing, FmHA supplements, rather than competes with, the lending abilities of commercial institutions, irrespective of interest rates. As with other sectors of the economy, the availability of credit has not improved since a March 1980 Comptroller General report found: "The shortage of mortgage credit in rural areas contributes to the high incidence of substandard housing (in rural areas)." Mortgage bankers in every region of the country continue to affirm that credit is simply not available in rural communities even under the most positive condition.

Ill-considered changes in the delivery mechanism for financing rural housing would only put additional pressures on rural financial institutions that continue to be unable to meet even the most basic farm credit needs of their borrowers.

One of the fundamental strengths of Farmers Home as we know it today is its continued ability to serve the needs of the increasing number of people who choose to live beyond our great cities and suburbs. The rural provisions of the Senate housing bill (as reported) ignore the continued success of the agency. Perhaps because of a perceived urgency for change that few seem to understand or encourage, there are those who do not understand the Farmers Home Administration and the practicality and efficiency of its delivery system and who would legislate the beginning of the end of the agency.

We again applaud efforts to extend Farmers Home housing programs near current year levels and take this as a reaffirmation of the basic soundness of the agency and its comprehensive rural development mission.

We think this Administration, and the Administrator, should have the opportunity to complete their efforts to stabilize FmHA and demonstrate that it can manage its diverse, but compatible, programs when funded at reasonable levels with the requisite number of personnel.

We do not believe that FmHA has outlived its usefulness. We think that the structure of Farmers Home, which has gone through the orderly and necessary process of evolution, is the best and only realistic way to deliver the services envisioned by the Congress. It makes no sense to us to try to impose urban solutions, some of which did not even work in our great cities, on a very different set of rural problems.

At the same time we recognize that adjustments and refinements of existing programs will be necessary, through both legislative and administrative action. The current mood in the country offers an opportunity for the thoughtful, creative and innovative review of how best to deliver programs and services as effectively and efficiently as possible.

We would hope that program reviews—whether the objective is rural housing or something else—proceed with no presumed mandate for change. Changes that do not offer a clear and defined improvement in assuring the availability and accessibility of assistance to the targeted recipients are expensive in terms of actual expenditures, personnel time, and the administrative adjustments that must be made both by an agency and the users of a program.

In addition to the executive agencies and the Congress, which has the ultimate responsibility for program design and authorization, we would encourage that the intended recipients of any program as well as those who participate at intermediate levels, be included in the process. We should stress at this point that we enjoy an excellent working relationship with Farmers Home Administration regarding the implementation of legislation you have enacted.

That concludes our prepared statement, Mr. Chairman. Thank you again. If you have any questions, we will be pleased to respond.

STATEMENT OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS

Since the inception of the National Association of Towns and Townships (NATaT), the members have strongly supported the programs run and operated by the Farmers Home Administration (FmHA). NATaT represents local government officials from over 13,000 smaller communities across the country, a good number of which are located in rural areas. NATaT's rural members, many who serve as part time elected officials, are responsible for ensuring the health and safety of their constituencies, a task complicated by the below standard of living found in many rural areas across the country. Rural communities cannot afford to take for granted the basic services provided routinely to citizens in their urban and suburban counterparts.

In this context, the programs funded and operated by the Farmers Home Administration are crucial to rural governments. FmHA's waste and water loans and grants, community facility loans and business loans provide essential funding to rural towns, funding which, in some cases, guarantees a community's survival.

Consequently, the National Association of Towns and Townships reaffirms its support for the programs funded by FmHA and strongly urges the U.S. Congress, at a minimum, to support these programs at fiscal year 1982 appropriated levels.

STATEMENT OF BURTON MILNOR, SECRETARY, GOVERNMENT GUARANTEED LOAN COMMITTEE, PUBLIC SECURITIES ASSOCIATION

Mr. Chairman, my name is Burton Milnor. I am Assistant Vice President with responsibility for Government Guaranteed Finance for Morgan, Keegan & Company, Inc. of Memphis, Tennessee, a regional New York Stock Exchange member firm. I am here today in my capacity as Secretary of the Government Guaranteed Loan Committee of the Public Securities Association. The Public Securities Association represents most of the broker/dealers and dealer banks across the country who market U.S. Treasury and Federal agency securities, and securities issued by State and local governments.

The Committee on which I serve represents substantially all the firms in the nation Involved in providing a market for U.S. Government guaranteed loans to business enterprises. Most of the country's major, well-known securities firms are involved in this activity and are represented on our Committee. Because of the national scope of our members' activities, we are in a position to observe the broad contributions made by the guarantee programs we utilize to the borrowers, the lenders, and their communities.

I would like to address my comments principally to the overall role of the Farmers Home Administration Business and Industrial Loan Guarantee Program in the capital markets.

The B&I program was originally enacted in 1974 because small and medium-sized employers located in rural areas had difficulty raising long-term investment capital. Without the ability to attract these funds from the private sector, these companies' sources of funds are generally limited to the commercial banks located in their areas. But a growing company's capital needs are not, however, easily met by a rural commercial bank.

There are three primary reasons for this shortfall: (1) Commercial banks in rural communities are usually small, independent institutions. It follows that such a bank's net worth is usually small and since the legal lending limit (the amount one bank may lead to one borrower) is a function of net worth, a single rural bank often cannot make a loan large enough to meet the borrowers needs; (2) Commercial banks are traditionally short-term lenders. While the maximum maturity policy varies from bank to bank, generally, requests for loans with maturities beyond seven years are denied or referred to other types of lenders; and (3) In the rapidly growing parts of the country, the demand for credit typically exceeds the available deposits. Since a bank's total loan portfolio must be a fraction of its deposits, many rural banks find that they are too illiquid to service many commercial loans which otherwise meet their criteria.

The FmHA guarantee specifically addresses these three problems and very often enables banks to circumvent them. To begin with, regulatory authorities have ruled that only the non-guaranteed portion of such a loan is counted against legal lending limit. Thus, in theory, a bank may make a loan to a single borrower as much as ten times its legal lending limit. Further, the ability of a bank to sell the guaranteed portion of a loan to the private sector creates liquidity for the lender, and given the further ability to retain a reasonable servicing fee on that portion sold, many banks are willing to compromise their maturity requirements. As a result, the B&I program fills a need which will otherwise not be met by the current banking system.

Broker/Dealers and the secondary market that they maintain play an important role in the B&I program. As mentioned before, the secondary market allows banks to increase their liquidity by selling loans to investors at competitive, market-determined, interest rates. This has the effect of benefiting both the lender and the borrower.

The lender is benefited because, through use of the secondary market, it can make more loans with the same number of dollars invested, thus enriching its community and increasing bank profits. Borrowers benefit from the program in two ways as well. First, because banks can sell their loans in the secondary market, the borrower benefits from an increase in local credit availability. Second, when a bank intends to sell a loan in the secondary market at a competitive interest rate, the bank is not locked into charging the borrower an artificially high rate for its own protection. Instead, depending on credit factors and conditions, the borrower may be able to get a loan at a rate lower than normal conditions would dictate. Thus as I indicate, the secondary market benefits both lending institutions and the borrower.

However, Mr. Chairman, in order for the secondary market to function effectively, two factors for which Congress and the Administration have responsibility, must be in evidence. These factors are a continual flow of funds into the program and at a reasonable rate. A reduction in the level of appropriations for the B&I program not only directly diminishes the overall level of program activity, but has the additional effect of reducing secondary market activity simply because it is not profitable for broker/dealers to trade B&I guaranteed loans unless there is a large enough volume of business. Speaking as a major trader in B&I loans, I believe the current level of appropriation earmarked for the program is dangerously close to damaging the secondary market and eliminating many of the benefits it creates for the borrower.

Mr. Chairman, our committee believes that a viable B&I program, enabling loans to be made in capital-short regions of the country in free market transactions is consistent with promoting a strong national economy and balanced economic growth. I note that according to the Farmers Home Administration, as of the end of last year the program had created 136,057 new jobs in rural America and saved another 137,077 jobs. This is a testimony to both the need for the program and the job it has done. I believe it is a program which deserves your strong support.

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